ANNUAL REPORT
2009

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mashreq المشرق

MASHREQBANK ANNUAL REPORT
2009

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His Highness (Late) Sheikh Zayed Bin Sultan Al Nahyan

May his soul rest in eternal paradise

His Highness (Late) Sheikh Maktoum Bin Rashid Al Maktoum

May his soul rest in eternal paradise

His Highness Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi

His Highness Sheikh Mohammed Bin Rashid Al Maktoum

Vice President & Prime Minister of the United Arab Emirates and Ruler of Dubai

Contents

Mashreqbank psc established in 1967
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SWIFT: BOMLAEAD, Website: www.mashreqbank.com

Board of Directors

Chairman
Mr. Abdulla Bin Ahmad Al Ghurair

Vice-Chairman
Mr. Ali Rashed Ahmad Lootah

Director & Chief Executive Officer
H.E. Abdul Aziz Abdulla Al Ghurair

Directors
Mr. Mohamed Abdulla Ahmed Al Ghurair
Mr. Abdulla Mohamed Ibrahim Obaidalla
Mr. Abdul Rahman Saif Ahmad Al Ghurair
Mr. Majid Saif Ahmed Al Ghurair

Chairman's Report

Mr. Abdulla Bin Ahmad Al Ghurair

Chairman

Fiscal 2009 was a challenging year for the financial services industry across the region and it is a matter of great satisfaction that Mashreqbank was able to withstand these challenges well and emerged unscathed. I am happy to state that your bank posted superior performance improving on most of the key performance indicators. However, due to deterioration in the overall credit environment and as a measure of prudence, we enhanced our provisions for impairment and this impacted the Net Profit which although lower than last year, continues to be healthy.

Since the year under review started with a rather uncertain scenario, your Board quickly readjusted its strategy and decided to reposition the Statement of Financial Position by reducing Advances and bolstering liquid assets without sacrificing Net Interest Margin. We also decided that the Advances to Deposits ratio be kept within an optimal band of 85–90% range. The management was successful in implementing this strategy and, within a short time, restructure its Statement of Financial Position. We closed the year with 1.5% growth in our Total Assets which reached AED 94.6 Billion mark as compared to AED 93.2 Billion in 2008.

Our Customer Deposits increased by 4.2% over 2008 to reach AED 53.6 Billion, and our Customer Advances declined by 13% over 2008 reaching AED 47.7 Billion, thus achieving the targeted Advances to Deposit ratio of 89%. At the same time, our Cash and Balances with Central Bank jumped from AED 6.3 Billion to AED 20.2 Billion, an increase of 220.8%. Our liquid Assets at AED 28.4 Billion posted a growth of 85% over 2008, and our liquid Assets to Total Assets ratio improved from 16.4% in 2008 to 30% in 2009.

This repositioning of Statement of Financial Position was done to ensure sufficient liquidity in these uncertain times. However, due to higher liquidity, the Net Interest Margin reduced marginally from 2.23% in 2008 to 2.22% earned in 2009, however our Net Interest Income for 2009 at AED 2103 Million was 0.9% higher than AED 2084 Million registered in 2008. The marginal growth in Net Interest Income was more than compensated by significant increase in Fee, Commission and Other Income for 2009 which went up by 50.4% as compared to 2008 and reached AED 2859 Million. The Operating Income reached AED 4962 Million, an increase of 24.6% as compared to 2008. Our focus on expenses management helped us to reduce the costs by 5.5% to AED 1770 Million level and Operating Profit before provision for Impaired Assets improved by 51% as compared to 2008. Our Cost to Income ratio also improved from 47% in 2008 to 35.7% in 2009.

As explained earlier, the difficult market conditions led to an increase in impairment charge which went up to AED 2114 Million. The high impairment charge reflects the current market conditions and has been made as per UAE Central Bank guidelines for corporate accounts. Our retail risk charge-offs are far more aggressive than recommended by the UAE Central Bank.

The Net Profit of the bank though reduced as compared to 2008 due to this Impairment Charge, remains healthy at AED 1000.4 Million.

Inspite of the decline in profit we have further improved our capital ratio which is calculated as per Central Bank guidelines on Basel 1, and reached 21% for December 2009, and our Tier-1 Capital ratio remains high at 16%. The same ratios as per Basel II guidelines stand at 20% and 14% respectively.

Your board is pleased to recommend a cash dividend of 15% and stock dividend of 5%.

Economy

The spillover of 2008 banking and credit crises kept most of the global economies in recession in the early part of 2009. Capital markets and oil prices reached record lows in March 2009. However, since the 3rd Quarter of the year, signs of economic recovery were being noticed across most of the developed world. Oil prices also rebounded and remained within USD 65 to 75 range for the second half of the year. The UAE economy which remained sluggish for most part of the year, however, showed signs of recovering in the last quarter.

IMPORTANT INDICATORS	2005	2006	2007	2008	2009
ADVANCES TO CUSTOMER DEPOSITS	66.6%	77.1%	72.4%	106.6%	**89.0%**
EQUITY TO TOTAL ASSETS	17.8%	14.0%	12.0%	11.5%	**12.5%**
RETURN ON AVERAGE SHAREHOLDER'S EQUITY (AFTER-TAX)	28.7%	21.5%	22.4%	16.7%	**9.4%**
RETURN ON AVERAGE ASSETS (AFTER-TAX)	4.4%	3.0%	2.6%	1.8%	**1.1%**
EFFICIENCY RATIOS	25.0%	36.5%	36.6%	47.0%	**35.7%**
CAPITAL ADEQUACY RATIO (AS PER CB) *	19.7%	17.5%	17.8%	13.5%	**20.2%**

* 2005, 2006 & 2007 are based on Basel I and 2008 & 2009 are based on Basel II

As per Economic Intelligence Unit, the UAE economy has contracted by 3.5% in 2009 with the decline in 2009 attributed to the lower average price of oil and reduced construction activity in Dubai.

Nevertheless 2010 outlook is positive, based on current indications. The stable oil prices, large infrastructure spending by Abu Dhabi, investment in oil related industry and the coming on stream of many industrial projects will fuel the GDP growth in 2010. The Government of Abu Dhabi has announced ambitious infrastructure spending of USD 1 Trillion over the next few years. Saadiyat Island Cultural District, Abu Dhabi metro, Inter emirate Rail link and Nuclear power stations in Abu Dhabi are some of the major infrastructure projects. Dubai also has quite a few large infrastructure projects under progress which will go beyond 2010. These infrastructure projects and related economic activity are expected to contribute to a positive growth of GDP of around 4% in 2010.

The Federal budget for 2010 was approved in the month of October projecting expenditure of AED 43.6 Billion for 2010 representing a modest increase of 3.4% over 2009 budgeted amount. The Education sector received the highest allocation of 22.5% out of this budget. Allocation for social spending is a whopping 41%; allocation for infrastructure spending is AED 7.5 Billion i.e. 17.5%. The Ministry of Finance expects the 2010 budget to be balanced where as 2009 budget is estimated to have ended with a 0.4% deficit.

The UAE Central Bank supported and strengthened the UAE banking sector through its prudent policies. it ensured that sufficient liquidity was available in the market by providing a repo facility to banks. Although repo rates tracked US interest rates, interbank lending and customer deposits rates in the market remained higher inspite of the dirham peg against the USD. This is attributed to systemic imbalance between advances and deposits and unusually high cost of borrowing from international market by local banks. Central Bank also formally implemented the Basel II regime and advised banks to adopt standardized approach for credit risk effective 2009. In the aftermath of the Dubai World announcement, the UAE Central Bank again reiterated its support and confidence in the UAE banks and announced availability of a special liquidity facility to all banks in the UAE, which generally remained unutilized.

Future Outlook

I am confident that the worst is behind us and that 2010 will see a return to growth. As mentioned earlier, all the economic indicators for 2010 and beyond are healthy, and will lead to an operating landscape which will place us back on the path to meeting our strategic objectives. In this respect, we have drawn up our strategy for the coming year and clear goals have been set for the bank. Our focus will be on optimization of network and cautious growth in select markets and segments. We will continue to aggressively manage our costs by using various tools and techniques including automation and outsourcing. Investment in technology and risk management system and practices will help to upgrade customer service and reduce the risk costs. Investment in employee skills upgrade, active talent management and employee retention will ensure that as the markets turn around we have fully equipped and motivated staff to seize the opportunities as they emerge.

My report will not be complete without expressing our thanks and gratitude to all Mashreq employees who have worked with commitment and dedication in challenging circumstances to produce these results. I would also like to place on record our thanks to customers for reposing confidence in us in these uncertain times and, to the Ministry of Finance and the UAE Central Bank for their unstinted support.

Thank you.

Abdulla Bin Ahmad Al Ghurair
Chairman

Chief Executive Officer's Review

H.E. Abdul Aziz Abdulla Al Ghurair

Chief Executive Officer

2009 was indeed an eventful year marked by shrinking of the UAE economy, deterioration of the credit environment and the rating downgrades. The prevailing circumstances made it all the more critical for the bank to look at its strategy in a different perspective in order to sustain the achievements of the past years. Thanks to the quick revamp of our strategy, we were able to withstand the storm quite successfully. Inspite of the environmental hiccups our revenue engine performed well and the Bank posted a 24.6% growth in revenue over 2008. The diversification of revenue streams which had been a cornerstone of our strategy held us in good stead. As Net Interest Income came under pressure due to the turmoil in credit markets and the bank's policy of maintaining High Liquidity, Fee and Other Income had a major role in keeping revenue growth on track. The core banking business of the group remained solidly entrenched in its markets of operations. Retail Banking Group further refined its customer proposition and added new products to its bouquet of offerings. Corporate and Investment Banking Group had a successful year inspite of the turbulent market. Treasury and Capital Markets Group recovered the lost ground and saw strong revenue growth. Financial Institutions Group and International Banking Group had mixed results. Infrastructure in two important overseas markets i.e. Egypt and Qatar was reinforced to enable us to achieve higher growth in 2010. The Islamic Banking model was revamped. Under the new model sales and distribution channels of Islamic Banking products have been merged with the conventional bank, keeping product development and financial records isolated to ensure purity of form.

Our subsidiary, Oman Insurance Company posted good growth in its core insurance business. The premium income jumped by 25.8% where as Net Income from insurance operations went up by 44.4% and Oman Insurance maintained its position as the largest insurance company of the UAE with the most diversified insurance operations in the region.

In line with our vision of establishing Mashreq as a regional Bank across the MENA region, we opened a branch in Kuwait and four more branches were added to Egypt network to bring it to ten. The UAE branches and ATM network were also optimized by re-location of certain branches and ATMs.

In our quest to make Mashreq the most efficient bank in the region and maintain its leadership in automation, significant investments have been committed into technology refresh. Mashreq also became the first Bank in the MENA region to outsource operational processes to offshore centres.

The changed business climate made it imperative for us to look at our cost base closely and manage it prudently. We had to maintain the fine balance between effective cost management and the need for investment to maintain future capabilities. Walking the tight rope we managed costs well and closed the year with 5.5% reduction in our cost base.

Domestic Retail Banking

In the first half of the year, Retail Banking continued to benefit from the rigorous and systematic transformation of its business model and the sales force effectiveness program initiated in 2008, and revenue grew strongly. However in the second half, high cost of funds in an environment of tight liquidity compressed margins that coupled with lower demand for products and services slowed top line revenue growth to 11.4% for the full year.

Reflecting a gradual deterioration in the economic environment, retail loan and credit card delinquencies rose steadily through the year. Actions have been taken to control the risk charge and we are confident that the impact from unsecured products has peaked and will see gradual improvement in 2010 as the environment stabilizes.

Our UAE branch network expanded to 56 with the addition of one branch. In addition five branches were re-located. Additionally 2 SME banking centres and 3 customer service centres were opened to extend the coverage across the whole of UAE. We continued to modernize and expand our ATM and CCDM network and increased our coverage to 226 Units.

In our Wealth Management business our MashreqGold priority banking proposition continued to be well received. Our BancAssurance business grew steadily. Personal customer deposits grew strongly during the year and our popular, on-line, "Easy Saver" account was a key driver of growth.

In SME Banking, we delivered a strong performance and we have developed a market leading position in the segment. Our approach is to build strong, branch-centered relationships in the communities in which we are located and to fully leverage the network of relationships maintained by our local branch managers. It is a 'community banking' approach which differentiates 'SME Banking from Mashreq' from our competitors. To this end, an MOU was signed with Mohammed Bin Rashid Establishment for Young Business leaders to jointly promote SME initiatives in Dubai.

As with the rest of the industry the Credit Cards business was hit hard due to credit losses, reflecting the riskier business environment. However, our portfolio quality has stabllized and we expect improvement in 2010.

On the merchant acquiring side we continued to invest in our POS terminal network and grew our installed merchant base. Acquiring volumes were, however, impacted by lower spends as retailers recorded drops in sales volumes. An exciting partnership with China Union Pay (CUP) was established to accept CUP issued credit and debit cards through our ATM and POS network.


Dubai
ABU DHABI
EMIRATES

Our retail bank won awards from Global Finance for Best Consumer Internet Bank and A Gold Effie at the GEMAS Effie Mena Awards 2009 for a direct mail campaign encouraging on line interaction.

Domestic Corporate and Investment Banking Group

2009 started with adverse market conditions in terms of liquidity and credit concerns as fallout of global recessionary trends. Recognising these concerns we realigned the corporate banking business strategy to ensure that the impact of these adverse market conditions on the bank was minimal. Business focus for the year was on four key elements: improve liquidity, maintain portfolio quality, improve operational efficiency and grow revenues through re-pricing, cross sell and focus on non-lending businesses.

Credit quality of CIBG portfolio has held reasonably well, despite recessionary trends in the market. Proactive steps were taken to evaluate, assess, monitor and strengthen portfolio quality. These included multiple portfolio and industry reviews, reduction of credit limits across sectors, stress testing of portfolio, comprehensive review of documentation and exit of high risk accounts. All these efforts led to a decline in the overall loan book by 13%. This notwithstanding, the revenue of the Corporate Banking Group grew by 24%. This was achieved largely through cross-sell and re-pricing. In addition, commission income from non-funded business and Fee Income also registered a significant growth. Increase in revenue was led mainly by growth of our business in energy and infrastructure sectors.

Investment Banking, a nascent business for Mashreq, which had shown a fast pace of growth during the last couple of years was hit hard and new mandates were reduced to a trickle as most prospective clients adopted a wait-and-watch strategy for fresh borrowings. However, in the second half of the year, this business saw some revival and Investment Banking closed the year with decent-sized revenue. Private Banking which was launched in 2007 with the new structure and wide range of rich customer offerings was able to make some inroads but still fall short of its potential.

International Banking

International Banking comprises both Commercial and Retail Banking services to customers outside UAE. The current footprint covers four countries with a total of sixteen branches; in Bahrain and Kuwait we operate with one branch each, while Egypt serves its customers with ten branches located in Cairo and Alexandria. In Qatar, we are present with four branches in Doha.

Our international presence allows us to offer the full range of commercial products and distribution channels to local and regional clients served by our branch network. Commercial customers, in select non-presence countries are being served out of Dubai. Our focus is on lending, trade finance and, treasury services and capital market products structured both conventionally and in a Sharia compliant manner.

Retail Banking aims to serve its select customer segments with a complete suite of products and channels. Leveraging our UAE home base is key for International Business; consequently Operations in most countries have been centralized to provide a consistent high level of service quality to all of our customers. Capitalizing on product capabilities in the UAE enables the transfer of award winning products into the region in order to establish Mashreq as one of the region's leading banks.

In 2010 and beyond, focus will be leveraging on the investments to further grow our regional network by expanding into select markets which will strengthen commercial ties between our footprint and the GCC.

Correspondent Banking

Financial Institutions Group provides correspondent banking services out of Dubai and through dedicated branches in London, New York, Hong Kong and India. To provide more value-added services to our customers and to give a boost to non-risk business, a new highly advanced browser-based USD payments system has been implemented in New York providing online facility to customers to initiate enquiries and payment instructions. The new payment system coupled with direct CHIPS membership in New York has brought our payment processing capabilities at par with the world's best. The new payment system has drastically reduced manual processing, thus enabling us to handle increased volumes and offer a wider range of products to meet customer needs. A Web-based customer front-end system will also soon be available for offer to customers.

Our payment processing capabilities in Euro and Indian Rupee were also augmented. The bulk of our Euro payments are now being handled by our London Branch while our Mumbai Branch is handling all our India bound remittances.

With focus on non-fund based risk free business, especially from developed countries, Financial Institution Group's fee income constituted over 93% of the total revenues in 2009 as opposed to 70% in 2008. We now have over 1000 banks spread over 70 countries maintaining Vostro accounts with us at Dubai, London, New York, Hong Kong and Mumbai.

Treasury and Capital Markets

The customer flow business, ranging from vanilla products such as spot and forward FX to complex derivatives, continued to post strong growth in 2009. Last year's cross-selling initiatives aided in achieving an increased penetration of Capital Market products amongst both, existing as well as new Corporate & SME clients, resulting in additional business volume and revenue. The Rates & Structured Solutions Unit continued its phenomenal growth in 2009, surpassing targets both in terms of transaction volume as well as revenue. In addition, on the back of a dedicated marketing effort, a number of new corporate clients were added to the Desk's relationships.

Mashreq Capital ("MC") continued to achieve significant milestones in 2009. Notably, MC successfully launched the Shariah-compliant Income Fund in June. The fund has received a positive response from the market and MC plans to use the Mashreq franchise to gain momentum. Meanwhile, the two other funds run by MC have also had a successful year, with Makaseb Income Fund rated as the top gainer of Q3 2009 amongst its peers in a survey conducted by Zawya, and the Emerging Markets Credit Opportunities Fund up about 28% at the close of November 2009.

The Equity Derivatives Desk developed into a niche provider of Structured Equity Notes and successfully broadened its distribution across the franchise – HNW Retail to Sovereign Wealth Funds. 2009 witnessed an expansion in geographical product coverage to offer capability across US, Europe & GCC equity markets. Mashreq Securities' ("MS") elevated it's ranking to 5th place in the UAE equity markets with the Institutional Desk acting as broker to global prime brokers, providing them with an edge on international flows within the region. Overall, Mashreq Securities grew market share by 12% YoY in 2009, although the UAE equity markets, as a whole, witnessed a drop of some 57% in the traded value of securities at the same time, reflecting investor caution in returning to regional equities in a volatile environment.

Makaseb, the asset management arm of Mashreq, started the year on a high note, winning the prestigious Lipper Fund award for 2009 for the Makaseb Emirates Opportunity Fund ("MEOF"). During an extremely difficult year with uncertainty across regional markets, MEOF ranked amongst the top performing regional equity funds. In addition, S&P reaffirmed an "AA" rating for the Makaseb Arab Tigers Fund and an "A" rating for Emirates Equity Fund and Qatar Equity Fund respectively.

Islamic Banking

We were successful in extending Islamic Banking offerings to Corporate and Investment Banking clients and achieved a 3% market share amongst the Islamic financial institutions in the UAE. MEED (Middle Eastern Economic Digest) ranked Badr 26th among top 50 Islamic financial institutions in the GCC; 9th among top Islamic banks in the UAE and 3rd among the top Islamic finance companies in the UAE. 'Badr Al-Islami Income Fund' one of the first regional Islamic fixed income funds was launched in 2009. The fund was nominated for 'Best Islamic Product - 2009' by the Islamic Business & Finance awards. Our Shariah Supervisory Board consisting of esteemed members (Sh. Abdalla Al Manei, Sh. Nizam Yaqouby and Sh. Dr. Mohamed Al-Gari) continued to provide guidance and monitoring to ensure Shariah compliance for all products and processes. Additionally the internal Shariah Audit function was also strengthened during the year.

The market for Islamic banking has grown rapidly over the past few years and is poised to exhibit further strong growth in the future. A limited product line has been one of the factors limiting Islamic banking growth. Based on this premise, our future strategy is to evolve the existing Islamic banking platform into a predominantly 'Product House' to cut across all units and geographies. This


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May I help you?
Deposits
Withdrawals
Transfers
الإيداعات
السحوبات
التحويلات

should result in adaptation of the Islamic banking business within the mainstream bank and include Shariah certification of all front office personnel. We also plan to draw synergies from the existing distribution network and Brand strength of Mashreq through re-branding of "Badr Al-Islami" into "Mashreq Al-Islami" with an eye to achieving a higher market share and becoming an effective product integrator. This will allow us to achieve greater economies of scale through increased productivity at a lower overall cost.

Operations & Technology

Mashreq is one of the few UAE banks that has a global footprint and this presents a challenge in standardizing processes and technology. In response to this challenge we have centralized the entire technology and most of the processing in Dubai.

The next logical step is to start the outsourcing of operational activities to offshore locations. This will increase efficiency, decrease overall costs and continuously improve quality of service delivery. In keeping with Mashreq's reputation as the most innovative bank, the off shoring process was initiated in 2009 and starting January 2010, select operational activities will be migrated to an offshore location.

To ensure that Mashreq customers operate in a safe and secure environment, especially when using online facilities, we are investing heavily in order to increase our levels of Information Security. This is a priority initiative for the Bank to secure our channels, databases and information networks while enhancing the level of awareness among staff and customers so that they remain vigilant to fraudsters and scams. The Banking Industry has seen a large increase in phishing attempts across the globe and these incidents can only be kept in check by ensuring enhanced alertness through training and communications.

The focus on Technology continues with large budgetary commitment for a major technology refresh. We have revamped most of our infrastructure, achieving huge improvements in our system response times and massive reduction in down times. This has ensured growing customer satisfaction in dealing with us through our various point of contact. The greatest achievement this year has been the creation of a state of the art Data Centre, at a new location in Dubai Outsourcing Zone (DOZ), with a full back-up Data Centre at a safe distance away.

We continue replacing all of our legacy systems and introducing new systems by ensuring that we get the best in class technology, for each of our products. The systems road map that was started two years ago is on track to positioning Mashreq as a leading provider of services to our customers, with technology being the enabler.

During the year 5S project (a Japanese philosophy) was implemented which is a way of organizing the workplace with the intent to improve efficiency by eliminating waste and reducing re-work. We are pleased to announce that Mashreq won the Gold Award at the Kaizen Blitz Competition organized by the Dubai Quality Group (DQG). What made this award even more attractive was that Mashreq was competing against the manufacturing industry where the Kaizen philosophy is well embedded.

Risk Management

Mashreq operates within a Risk Management Framework defined by our risk appetite and our ability to manage risk for reward through sound risk management principles and processes followed in all business and support areas. The Risk Management Head has enterprise-wide responsibility for the function, and is a member of Mashreq's Risk Committee which comprises of the CEO, Business Heads and the Heads of Audit and Finance. The role of this Committee is to oversee the quality of the risk portfolios, approve risk policies and address emerging risk issues.

At its core, Risk Management in Mashreq operates independent of but in partnership with the Business. Within this construct, limits and approval authorities are exercised by risk officers with defined approval authorities which -in turn- are determined by experience, demonstrated judgment, balance and skills.

During 2009, the bank continued to evaluate and further refine its risk management processes. Technology played an important role in this regard with the installation of an advanced and automated collection system for the Retail Risk function and completing a test-run of an end-to-end automated process for Credit Approvals and Portfolio Management in Wholesale Risk. A formal launch of the system is planned for Q2 of 2010. A further initiative was launched to develop a Customer Portal in Market Risk which, when completed, will have the capability of producing real-time customer–level portfolio information and performing stress tests. In addition an Operational Risk platform was installed in 2009, one which will enable Mashreq to achieve a world-class standard of Operational Risk Management.

With respect to Basel II, Mashreq is gearing up to adopt the Internal Rating based approach for Credit Risk, Standardized approach for Market Risk and Basic Indicator approach for Operational Risk for calculating of risk capital. Implementation date will be in line with Central Bank guidelines. A dedicated Basel II Project Manager has been recruited in order to maintain focus and direction in this critical area.

Mashreq's business exposes it to credit, market and operational risks.

Credit Risk

Credit risk is the potential for financial loss arising from a borrower's or counterparty's inability to meet its obligations. The bank measures credit risk through a combination of probability of default, credit structure, security and support. The bank has developed a sophisticated risk rating/scoring tool to uniformly measure credit risk in its Corporate and Retail portfolios. Statistical techniques are used for estimating default probabilities, for calculating expected loss and for measuring customer/product profitability. While overall risk management is unified and independent for corporate and retail, the processes for managing corporate and retail credit are distinct and separate:

Corporate Credit Risk

Corporate credit risk is managed through a series of fundamental principles, including a minimum of two signatures for any credit approval (a recommending signature from business and an approving signature from independent risk management manager), risk rating standards applicable to every borrower, and adherence to bank policies, underwriting, and documentation standards. We equally ensure full compliance with all regulatory requirements. Mashreq also has in place policies that require escalation of certain High Risk Credits for approval by designated members of the Risk Committee of the bank.

Credit proposals typically include risk rating of the borrower using advanced analytical techniques based on default probabilities, transaction analysis including tenor and types of facilities, pricing, and information relating to the operating condition, business and management of the applicant, industry factors, collateral and support, and a detailed historical financial analysis a well as financial projections.

Since the extension of credit across national borders to customers in foreign locations entails Country Risk, Mashreq has established cross border country limits for managing transferability and convertibility cross border risks. These limits are reviewed annually by Risk Management and the Risk Committee.

Retail Credit Risk

Retail credit risk is managed on a product basis with individual extensions of credit subject to terms under approved product programmes. The evaluation of a borrower's creditworthiness is determined on the basis of statistically validated scoring models and within a Retail Credit Policy framework. Mashreq has a well staffed Retail Risk organization that comprises of Policy, Credit Initiation & Compliance, Collection & Recovery, and Fraud Management.

Market Risk

Market risk arises when the values of assets and liabilities or revenues are affected by changes in market conditions such as interest or currency exchange rates. Market Risk also arises out of liquidity and rate risks on the Bank's balance sheet. These are overseen by an Asset Liability (ALCO) Committee which meets at lest once a month to review all funding and interest rate risks along with the performance of all proprietary positions and a review of contingency funding plans.

We manage these risks within a framework of a limit-setting, approval and monitoring process for all proprietary risk positions. We evaluate counterparty risk for all foreign exchange and derivative trades undertaken at a customer level, based on an assessment of the aggregate trading risk assumed by the customer and the suitability and appropriateness of such trades. Mashreq uses Value at Risk as a measure of counterparty credit, under the supervision of dedicated market risk professionals who are responsible for ensuring adherence to policies, limits and monitoring of exposure.

Mashreq is also introducing new market risk limits, revised standards for capital market activities, and in 2010, the Bank will implement new market risk systems and will launch a new Capital Markets Risk Policy.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failure of systems, internal processes, people, and from externalities. Depending on the severity, unmanaged operational risk can result in significant unexpected losses and erosion of capital.

Mashreq recognizes the value and criticality of operational risk and has taken the initiative to set up an independent Operational Risk function under the umbrella of the Risk Management Group to build an operational risk culture across the organization, such that every resource within the Bank recognizes and takes ownership of the operational risks inherent in their activities and manages the same in an effective manner.

In Mashreq, we have integrated our various business operations and back office functions, including Technology, under a Head of Operations, in order to improve operating efficiency and processes; thus reducing operational risk.

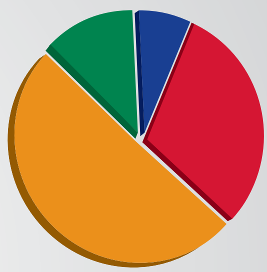
Audit, Review & Compliance

This is an integral part of the "Governance" framework for Mashreq and is primarily responsible for providing independent assurance to the Board of Directors, CEO and Senior Management on the adequacy, efficiency and effectiveness of processes and controls in the Bank, including compliance with regulatory requirements.

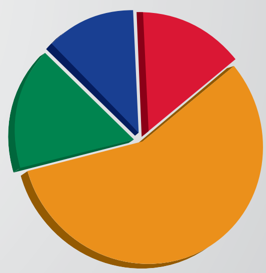
Reporting to the Audit Committee of the Board of Directors, the Audit function of the Group is independent of both business and support functions; it has the overall responsibility of carrying out independent audits and review of all business and support units of Mashreq, within and outside the U.A.E. The Audit function also provides reasonable assurance that the Bank's assets are adequately protected; controls are adequate and effective, and actions are in compliance with corporate policies, standards, procedures, and applicable laws and regulations. The Group also plays a prominent consultative role through its partnering efforts to add value and enhance the control framework while optimizing efficiencies and risk mitigation techniques.
The Compliance arm of the Group provides ongoing critical support in ensuring that the Bank strictly observes all the regulatory and anti money laundering requirements it is subject to.
Mashreq utilizes a world class automated AML transaction

CLASSIFICATION OF ASSETS / LIABILITIES - DECEMBER 31

ASSETS	2005	2006	2007	2008	2009
CASH AND BANK BALANCES	28.7%	24.0%	35.6%	16.5%	**30.1%**
ADVANCES	42.9%	47.1%	39.9%	58.9%	**50.4%**
INVESTMENTS	24.3%	23.4%	17.8%	15.3%	**12.5%**
OTHER ASSETS	4.1%	5.4%	6.7%	9.3%	**7.0%**



LIABILITIES	2005	2006	2007	2008	2009
CUSTOMER DEPOSITS	64.5%	61.1%	55.1%	55.2%	**56.7%**
BANK DEPOSITS	7.5%	12.3%	19.7%	18.7%	**16.3%**
LONG TERM AND OTHER LIABILITIES	10.5%	12.6%	13.3%	14.6%	**14.5%**
SHAREHOLDER'S EQUITY	17.5%	14.0%	12.0%	11.5%	**12.5%**



monitoring system coupled with a client and payment screening solutions.

The Fraud & Investigations Division of the Group plays a major role in protecting the bank and its customers against fraudulent activities. It provides a clear focus in this area and uses specialized tools, techniques and skills in its fraud prevention and investigation responsibilities.

Human Resources

In line with the bank's mission of creating stronger teams; smoother processes and smarter solutions; attraction, retention and motivation of the workforce remained an imperative task for the HR function. We have taken several critical steps in this direction to ensure that we continue to remain efficient and productive in our operations given the tough business environment.

Due to the overall slowdown of the economy, recruitment had taken a backseat and major efforts during the year were on developing human potential and motivating them for superior performance. It was certainly a challenge in such turbulent times where rightsizing had become an unavoidable task.

2009 saw an important Talent Management initiative called "Mawaheb" being piloted for the Retail Banking Group. With the launch of this program, we have embarked on a journey of developing a culture which routinely identifies high potential people and accelerates their exposure to a wide range of developmental experiences. The experiences and positives from this initiative will serve as a springboard for expanding the same across other business groups of the bank.

On the Emiratization front, we lived up to our commitment by hiring a mix of fresh as well as experienced UAE Nationals thereby taking our UAE National percentage to 41%. One of the key challenges for the year 2010 will be to retain the UAE National workforce through structured development initiatives aimed at harnessing their potential and providing a platform for faster growth.

In a year of business challenges we adopted a highly need-based and focused approach to address priority value-adding training requirements. During 2009, we conducted / organized 674 Instructor led training programs with 8689 participants and 8879 man days. Under e-learning, we covered 5406 man days which is totalling to more than 14,000 man days investment in employee learning investment during the year.

A new state-of-the-art Learning and Development centre was opened in line with Mashreq's commitment of being a continuous learning organization. This innovatively designed learning environment will help foster learning excellence, employee competence and unleash talent to enable Mashreq to be a leader in all aspects of business and people practices. As a leading financial organization, we believe that investment in knowledge always gives the best interest. The newly opened Center of Excellence is one of the best technologically enriched centers available in this area.

Continuing with our efforts of improving employee engagement across the organization, 2009 saw a whopping 88% participation in the Gallup Employee Engagement survey. Our engagement scores have shown a significant positive improvement over the last year which in a year of uncertainties at all fronts speak volumes of the efforts on the part of the engagement champions and managers in action planning towards building an even more engaged workforce.

In conclusion, by all counts 2009 was a difficult year and, undoubtedly without the commitment and support of all Mashreq staff, we would not have achieved such good results.

Thank you.

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Worldwide Presence

UAE BRANCHES

	Tel	Fax
ABU DHABI		
Abu Dhabi Main	02-6127257	02-6269550
Zayed II	02-6178700	02-6214052
Al Salam	02-6967720	02-6742482
Baniyas	02-5048200	02-5822115
Muroor	02-4198200	02-4481821
Al Mushrif	02-4079200	02-4431717
Khalidiya	02-6937800	02-6673883
Musaffah	02-5555051	02-5555052
Al Jawazat	02-6416405	02-6412799
Al Najdah	02-6712279	02-6412799
Muroor II	02-6416628	02-6417904
AUH Karamah	02-4463016	02-4453296
AL AIN		
Al Ain Main	03-7077223	03-7645602
Al Ain AIT	03-7077300	03-7668896
Al Muwaiji	03-7997411	03-7540570
DUBAI		
Hor Al Anz	04-6082215	04-2662887
Dubai Mall	04-4344113	04-4344104
Dubai International City	04-4221313	04-4220372
Al Murraqabat	04-2658400	04-2657449
Al Khaleej	04-7067710	04-2723786
Suq Al Kabeer	04-2264176	04-2266783
Riqa	04-2078236	04-2233785
Khor Dubai	04-5069200	04-3531854
Jumeirah	04-3456444	04-3452179
Jebel Ali	04-8815355	04-8816628
Sheikh Zayed Road	04-3028410	04-3212574
Al Ghusais	04-2175100	04-2676347
Mall Of The Emirates	04-3410107	04-3410073
Al Rashidiya	04-2857008	04-2860373
Murooj	04-3434452	04-3434793
Dubai Internet City	04-3632030	04-3632205
Dubai Health Care City	04-3624760	04-3624759
Port Saeed	04-2957556	04-2956043
Mirdif	04-2845648	04-2845651

	Tel	Fax
Al Nahda	04-2572734	04-2670141
AL Aweer	04-3333727	04-3333670
Abu Hail	04-2173301	04-2633530
Karama	04-3360547	04-3367359
Park Place	04-3296868	04-3296578
JBR	04-4242300	04-4233794
South Ridge	04-4286104	04-4221412
Burjuman	04-3967092	04-3967105
SHARJAH		
King Abdul Aziz	06-5077600	06-5745334
Sharjah Main	06-5118230	06-5372903
Buhaira	06-5742888	06-5744446
Al Khan	06-5770131	06-5772977
SHJ Industrial Area	06-5344747	06-5340188
Gold Souq (Al Wahda)	06-5012115	06-5745334
AJMAN		
Ajman Main	06-7017311	06-7426690
Ajman Grand Station	06-7430300	06-7431444
DHAID		
Dhaid	06-8027410	06-8822416
FUJAIRAH		
Fujairah	09-2027200	09-2226860
KHORFAKKAN		
Khorfakkan	09-2385295	09-2387189
RAS AL KHAIMAH		
Al Nakheel	07-2037316	07-2281880
Ras Al Khaimah	07-2037216	07-2363620
UMM AL QUWAIN		
Umm Al Quwain	06-7067511	06-7664948

SUBSIDIARIES

UAE - DUBAI	Tel	Fax
Oman Insurance Co. P.s.c. (8 Branches in UAE) Tlx: 46030 OIC EM	04-2624000	04-2690110
Osool - A Finance Co. (2 Branches in UAE)	04-2148100 04-2650568	04-2974189
Mindscape Information Technology LLC	04-2714333	04-2722985
Mashreq Securities LLC	04-2223333	04-2226061
Injaz Services FZ LLC	04-2223333	04-2226061
Al Badr Islamic Finance (PJSC)	04-2955206	04-2949931
Mashreq Capital (DIFC) Ltd.	04-2223333	04-2283491
Al Yamama Services FZ LLC	04-2223333	04-2283491

BAHRAIN		
Makaseb Funds Co. BSC Makaseb Funds Co. BSC II	973 17 535455	973 17 535405

BRITISH VIRGIN ISLANDS
Bracebridge Limited
Drake Chambers, PO Box 3321
Road Town, Tortola

Orriston Limited
Drake Chambers,PO Box 3321,
Road Town, Tortola

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Nasr City
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Fax: (202) 2403 2347

Alexandria
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Fax: (203) 429 6058

6 of October
Tel: (201) 8101 0455
Fax: (202) 3836 1340

Mohandseen
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Fax: (202) 3305 3655

Katamya
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Fax: (202) 2929 8695

Dokki
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Fax: (202) 3336 3096

Zamalek
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Fax: (202) 2735 8272

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Fax: (973) 17215990

Qatar
Al Rayyan
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Fax: (974) 4803588

C Ring Road
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/30/31/32
Fax: (974) 4349647

Ramada
Tel: (974) 4328746, 4424765
Fax: (974) 4329288

TV Roundabout
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Fax: (974) 4867207

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Safat
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Fax: (965) 2495 4861

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Hong Kong
Tel: (852) 2521 2938
(852) 2905 5814
Fax: (852) 2521 4289

INDIA
Mumbai
Tel: (91) 22 66327200
Fax: (91) 22 66301554
Swift: MSHQ IN BB

New Delhi
Tel: (91) 11 23350560
Fax: (91) 11 23357143
Swift: MSHQ IN BB

EUROPE
London
Tel: (44) 207 3824000
Fax: (44) 207 2569717
Swift: MSHQ GB 2L
Telex: 883429 MSHQLN G

AMERICA
New York
Tel: (1) 212 5458200
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Swift: MSHQ US 33
Telex: 239881 MSHQ NY

REPRESENTATIVE OFFICES
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(88) 02 9560473/812
Fax:(88) 02 7124195

Pakistan
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Tel: (92) 21 356 56832
Fax:(92) 21 356 56872
(MSHQ PK KA)

Sudan
Khartoum
Tel:(249) 183 74 0860/61/62
Fax:(249)183 74 0860

Corporate Governance Report

Governance Practice

Mashreqbank Corporate Governance rules are based on Ministerial Resolution Number 518 of 2009, industry best practices, Law Number 8 of UAE Companies Law, UAE Central Bank regulations, and the Securities and Commodities Authority code on Corporate Governance.

Through a good Corporate Governance structure, we seek to balance the financial success, controls, transparency and accountability. The Bank has a clear documented delegation of authority for administrative and credit approvals. The delegation of authority is judiciously provided based on experience, performance, track record and the position of individuals. Any misuse of authority or acts of negligence are highlighted through regular audits and credit reviews which are escalated up to board level depending upon the seriousness of the issue.

The Bank has well established policies and procedures documented in various manuals and supported by detailed Standard Operating and desk-top Procedures. The Bank has a written Code of Conduct to be followed by all employees. This Code of Conduct is signed by employees and its adherence is monitored closely.

A detailed qualitative disclosure on risk management policy and controls is provided through a separate Note on Pillar-3 Disclosure attached to our annual financial statements available on Bank's website. Please refer to this note for further information on our policies. For accounting policies, please refer to Note Numbers 3 and 4 published in our consolidated financial statements which are available on the bank's website. Similarly, a comprehensive qualitative note (Note Number 42) on risk management policy is also published along with the annual consolidated financial statements that may be referred for further information on risk management issues.

The bank's detailed financial statements prepared in accordance with International Financial Reporting Standards (IFRS) are posted on its website which can be referred to for various pertinent disclosures.

Corporate Governance is high on Mashreq's agenda and we have a page on our website dedicated to our Corporate Governance practices.

Board of Directors composition

The bank's Board consists of 7 Directors. The Chairman and 5 Directors are Non-Executive Directors and only the CEO is an Executive Director. Two Directors out of seven are independent Directors who are not related to the major shareholders or Chairman or the CEO of the Bank.

The Executive Director and CEO is the son of the Chairman. Another son of the Chairman and two of his nephews are also Board members.

All Directors were elected by the shareholders of the company and have a 3-year term. All the Directors are well-qualified, experienced professionals and add tremendous value to the overall management capability. These Directors are successful businessmen in their own right and they also hold very responsible positions in public life.

All the directors have declared their interest and directorships at the time of joining the Board and also their dealings in bank's securities are on full disclosure and arms length basis.

The names of the Directors and positions held by them are enclosed as per Annexure 'A'

The Board of Directors meet at least once every Quarter. They have delegated certain powers to CEO for effective day-to-day management. All important management issues are raised at Board level where the bank's senior management presents details to the Board.

Remuneration of the Board

The remuneration of Board members consists of Director's fee which is a fixed amount for the year and is paid annually after closure of the year. For 2009, fee payable is AED 2.15 Million which is 0.2% of Net Profit.

In addition, the Executive Director and CEO is paid a monthly salary and he is entitled for performance bonus also.

Board Meetings

The Board of Directors meet minimum once every Quarter. During 2009, Mashreqbank Board had 5 meetings.

Board Committees

Audit Committee of the Board: The Audit Committee of the Board consists of the following 3 members, 2 of which are Non-Executive Directors

1. Mr. Mohamed Abdulla Ahmed Al Ghurair
2. H.E. Abdul Aziz Abdulla Al-Ghurair
3. Mr. Abdulla Mohamed Ibrahim Obaidalla

The Audit Committee, during the year, meets the external auditor and provides them the recommendations on the overall audit plan. They also discuss the auditor's management letter and the management's response, as well as, corrective actions taken. They review the quarterly financials and approve Quarterly and Annual financial reports of the bank. The Audit Committee also meet's the bank's Head of Audit Compliance and Review Group to review their charter, scope of work, and the organization structure. The inspection reports from regulators are also presented to the Audit Committee for their review and action.

Remuneration and Compensation Committee of the Board: The following 3 Non-Executive members are members of this Committee

1. Mr. Ali Rashed Ahmad Lootah
2. Mr. Abdul Rahman Ahmed Lootah
3. Mr. Abdulla Mohamed Ibrahim Obaidalla

This Committee meets as and when required but at least once a year. The main task of this Committee is to review the reward strategy of the bank and approve the annual increments and bonus recommended by management.

The Board Committees are an important element in the overall corporate governance framework. There are various management committees which have been established by the Board and have delegated authority to manage the bank's affairs on day-to-day basis.

Management Committees

The Bank's **Executive Management Committee** consists of CEO and his Direct Reports. This Committee meets on monthly basis and discusses issues concerning the Bank and takes required decisions. The following are sub-Committees of the Executive Management Committee of the bank and derive their authority through the Board's delegation to CEO. These sub-Committees are specific to a function and all concerned functional heads are members of these Committees.

(i) **The Audit and Compliance Committee - ACC:** This Committee helps the Board Audit Committee and considers issues of internal control, internal audit, and risk identification. Response gaps, if any, to internal audit findings are also reviewed by this committee. This committee meets every month.

(ii) **Asset and Liability Committee – ALCO:** ALCO is responsible for monitoring and managing the bank's assets and liabilities with the primary objective of managing liquidity to ensure obligations and applicable regulatory requirements are met on an on-going basis while also mitigating interest rate risks. ALCO meets every month.

(iii) **Information Security Committee - ISC:** This is also a high level management committee to review and administer information security infrastructure in the bank. This Committee meets every month.

(iv) **Risk Committee:** This Committee derives its powers from the Board delegation. It sets risk policies and programs. It also ensures their adherence. The Committee meets as and when required.

(v) **Investment Committee:** The Investment Committee meets as and when required. The primary focus of the Committee is to approve the bank's investments of funds in securities. It also reviews the performance of the bank's investments as compared to benchmarks established by them.

External Auditors: Deloitte (a member of the Deloitte Touche and Tohmatsu) were appointed external auditors for Mashreqbank Group consolidation and parent company audit by the shareholders in their meeting held on March 15, 2009 on a fee of AED 640,000. In addition, the auditors of our overseas locations and subsidiaries are paid separately.

General: During the year, Mashreq share trading was very thin and only 8596 shares representing 0.005% of total shares were sold / purchased. None of the directors or major shareholders sold or purchased any of their holdings.

Basel II Pillar 3 - Qualitative Disclosure

Introduction

Basel II Framework

Basel II is the name given to the revision of the 1988 regulatory framework defining the capital requirements for banking institutions, known as Basel I.

The main objectives of the revised framework, contained in the International Convergence of Capital Measurement and Capital Standards ("Basel II Framework") and other literature, put in place by the Basel Committee on Banking Supervision (Basel Committee) are to improve the regulatory framework in order

i) to further strengthen the soundness and stability of the international banking system
ii) to promote the adoption of stronger risk management practices by the banking industry
iii) to prevent any competitive regulatory inequality among internationally active banks.

In order to achieve these objectives, the Basel II Framework is based on three pillars:

- **The first pillar – Minimum Capital Requirements** – defines the way banking institutions calculate their regulatory capital requirements in order to cover credit risk, market risk and operational risk. The revised framework provides different approaches for calculating credit risk (three approaches: Standardized, Foundation Internal Rating Based (FIRB), Advanced Internal Rating Based (AIRB), market risk (two approaches: Standardized, Internal Model Approach) and operational risk (three approaches: Basic Indicator Approach, Standardized Approach, Advanced Measurement Approach).

- **The second pillar – the Supervisory Review Process** – provides national regulators with a framework to help them assess the adequacy of banks' internal capital to be used to cover credit risk, market risk and operational risk but also other risks not identified in the first pillar such as concentration risk.

- **The third Pillar – Market Discipline** – encourages market discipline by developing a set of qualitative and quantitative disclosure requirements which will allow market participants to make a better assessment of capital, risk exposure, risk assessment processes, and hence the capital adequacy of the institution. The requirements of Pillar III are fulfilled by this publication.

Basel II implementation

Pillar I – Approaches Adopted by Mashreqbank

Risk Type	Current Approach Adopted	Planned Future Approach	Planned Implementation Date
Credit	Standardized	Foundation Internal Ratings Based (FIRB)	2011
Market	Standardized Measurement Approach (SMA)	Standardized Measurement Approach (SMA)	Not Applicable
Operational	Standardized Approach	Standardized Approach	Not Applicable

Credit Risk – Standardized Approach

The bank has adopted the Standardized Approach in line with the UAE Central Bank guidelines.

The bank intends applying for approval to adopt the Foundation Internal Rating Based (FIRB) Approach for the determination of its regulatory capital requirements with regard to Basel II Pillar I for credit risk and for the calculation of its solvency ratios. Internally developed ratings models have been in use since 2005, although the metrics are not applied for regulatory purposes. The FIRB Approach would be applicable to all banking entities and subsidiaries consolidated within the Mashreq Group. In the long term the bank intends progressing to the Advanced Internal Ratings Based Approach (AIRB).

Market Risk – Standardized Measurement Approach

In terms of market risk, Mashreqbank calculates its capital requirements on the basis of the Standardized Measurement Approach for general interest rate risk, foreign exchange risk, specific interest rate risk and equity risk (general as well as specific risk).

Operational Risk – Standardized Approach

For operational risk, Mashreqbank applies the Basic Standardized Approach in accordance with central bank guidelines. The Operational Risk Framework has been put in place, including a sophisticated IT system to capture and report the large amount of data required. The Risk and Control Self-Assessment (RCSA) process and related processes are being embedded in every business unit, including foreign subsidiaries and branches.

Pillar II Scope

Major emphasis will be placed upon establishing a robust Pillar II platform in 2010.

The ICAAP (Internal Capital Adequacy Assessment Process) is the key element in Pillar II.

The ICAAP demonstrates that the bank has adequate capital to cover all risks beyond the minimum regulatory requirements based on the size, location, complexity and diversification of its business(es).

A Capital Management project has commenced, to develop a credit and economic capital framework as well as institute credit portfolio management. This will lay the foundation for accurately determining the bank's economic risk profile. Stress-testing of the risk profile and incorporation with the bank's strategic business plans will enable the bank to accurately determine its Risk Appetite over the planning and budgeting cycle. The Risk Appetite will then be compared with the bank's Risk Capacity and surplus capital capacity will be determined, for incorporation with Liquidity Risk Tolerance and Risk Capacity in the ICAAP.

Executive Management will approve the Risk Appetite Statement and ALCO will approve the Liquidity Risk Tolerance Statement, demonstrating a deep understanding of the methodologies and processes endorsed. Special attention will be paid to integrating Risk Appetite within the business units. Future developments will include development of a more sophisticated RAROC and pricing methodology, capital allocation to each client and transaction, and related activities.

Pillar III Scope

The Third Pillar – market discipline – encourages market discipline by developing a set of qualitative and quantitative disclosure requirements allowing market participants to make a better assessment of capital, risk exposures, risk-assessment processes, and hence the capital adequacy of the institution.

This section fulfills the qualitative disclosure requirement. The quantitative disclosure is contained in Note 42 of the Annual Financial Statements.

Qualitative disclosure is primarily concerned with Basel II and its impact upon enterprise-wide Risk Management, the organization and scope of Risk Management, a description of how all risks are managed and a brief assessment of Capital Adequacy and Risk Appetite (a more comprehensive assessment is contained in the ICAAP).

Mashreqbank will publish qualitative information on its website from 2010 and quantitative information on 2009 data will be published at the beginning of 2010.

Frequency of Disclosure

In future, Mashreqbank will release the Pillar III Qualitative Review on its website (www.mashreqbank.com) on an annual basis coinciding with publication of the Audited Financial Statements.

The Pillar III Quantitative Review will be published semi-annually coinciding with publication of the Interim Results and Audited Financial Statements.

1. Risk Management Objectives and Policies

1.1 Risk Management Overview

Objectives

The main goals of Mashreqbank's Risk Management are to oversee the bank's enterprise-wide risk policies and guidelines under the guidance of the Board of Directors and the Risk Committee, to establish credit limits and delegation authorities, to set and manage the risk surveillance function and decision processes and to implement Group-wide risk assessment methods for each of the bank's units and operating entities.

Mashreqbank has implemented an integrated Risk Management platform enabling Risk to manage the bank as a single portfolio. Sophisticated risk metrics such as probability of default and risk charge are calculated at transaction and portfolio level, enabling the bank to manage its business based upon long-term risk-return.

All material risks are assessed in a proactive way within the Enterprise Risk framework. From 2010 onwards the Risk Appetite Assessment will integrate Basel II compliant stress scenarios, while comprehensive risk capital management will ensure an appropriate risk capital allocation at portfolio and transaction level.

Risk Governance

Mashreqbank's Risk Governance model defines three types of committees:

- The Risk Committee;
- The Assets & Liabilities Committee (ALCO);
- The Investment Committee.

Risk Committee

The Risk Committee concentrates on developing Group-wide policy frameworks for all risk types as well as managing and monitoring material credit, market and operational risks for the different activities within Mashreqbank.

ALCO

The ALCO is in charge of monitoring the bank's liquidity, asset liability mismatch, interest rate risk and related functions.

Investment Committee

The Investment Committee monitors the credit and investment quality of the bank's various investment portfolios and recommends portfolio adjustments as required.

Organization

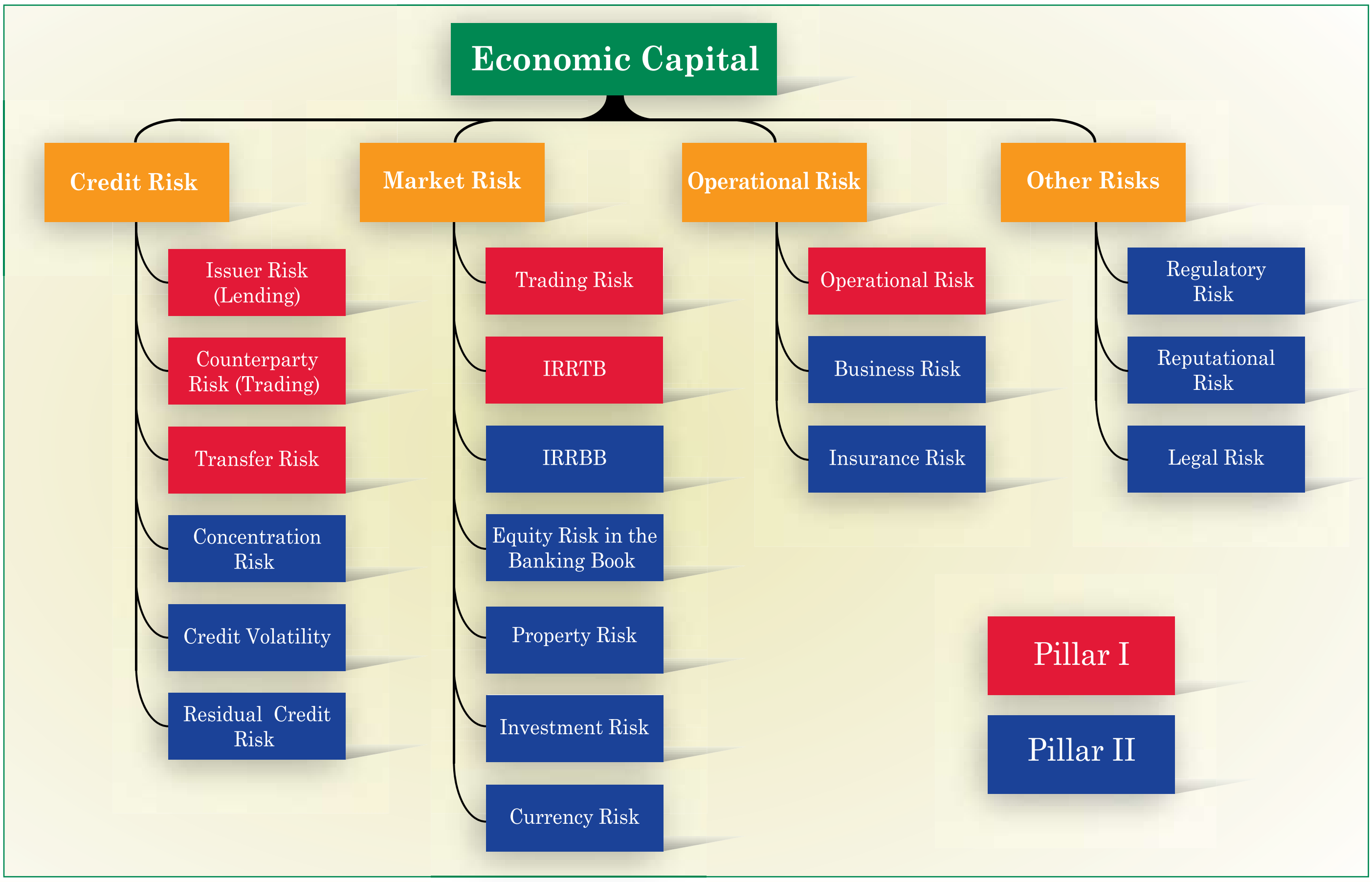
Risk Management

The Group has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor material risks arising out of its day to day operations.

All risk types can be grouped under the following major headings:

- Credit Risk
- Market Risk
- Operational Risk
- Other Risks

Group Risk Taxonomy



Key

IRRTB Interest Rate Risk in the Trading Book
IRRBB Interest Rate Risk in the Banking Book

Pillar I covers credit, operational and market risks which typically impact the Income Statement and affect the earnings profile of the bank.

Pillar II covers the remaining risks not covered by Pillar I. More important it focuses upon risks such as volatility and concentration risk that typically impact the balance sheet and capital adequacy.

ICAAP

For ICAAP purposes, risks will be aggregated using the above taxonomy and the bank's aggregate Risk Capital requirement determined.

Committee Structure

The Risk Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the Board of Directors to set up risk limits and manage the overall risk in the Group. These committees approve risk management policies of the Group developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Group. In addition to setting the credit policies of the Group, the Risk Committee also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. This Group is responsible for developing credit, market and operational risk policies. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

The Credit Risk & Control Unit (previously known as Portfolio Management and Risk Analytic Unit) operates independently of the Risk Management Group and is responsible for developing, validating and revalidating financial risk models for risk ratings and scoring models, as well as the calculation of Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD"). From 2010 onwards the Unit will also be responsible for credit & economic capital management, credit portfolio management and related activities.

All material portfolios are covered by risk models. During the year ended December 31, 2009, a capital management project commenced which will lay the foundation for robust Pillar II and ICAAP reporting.

Management considers that the rating systems and methodology employed remain robust. During the downturn experienced in 2009 the models exhibited behavior consistent with a deteriorating credit environment.

The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non–performing assets. As part of its Portfolio Heat Map analysis, the Group carries out periodic stress testing to its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific industries and/or due to global risk events and their implications on the Group's client base, and (ii) determine portfolio direction and resource allocation accordingly.

1.2. Credit Risk Management

Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

Credit risk is the potential for financial loss arising from a borrower's or counterparty's inability to meet its obligations. When assessing the credit risk charge related to a single counterparty, Mashreqbank considers three elements:

- Probability of Default (PD): The likelihood that the counterpart will default on its obligation either over the life of the obligation or over some specified horizon, normally one year.
- Exposure at Default (EAD): An estimation of the exposure amount in the event of a default during the default period.
- Loss Given Default (LGD): In the event of a default, the difference between the portion of the exposure that will be recovered and the actual loss compared to the EAD.

For Pillar II purposes the risk capital consumption of each transaction, counterparty and portfolio is the key driver in ultimately determining the risk profile and Risk Appetite of the bank, as well as its capital adequacy.

All credit policies are reviewed and approved by the Group Risk Committee. Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by geography and industry sectors.

Wholesale Credit Risk Management

The Wholesale Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. Such approvals are carried out in accordance with the Group's credit policy as set out in the Wholesale Credit Policy Manual. Periodic policy revisions and updates are posted as Policy Bulletins.

All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head in line with the Wholesale Credit Policy,and approved by the Group's Chief Executive Officer (the"CEO"). At least two signatures are required to approve any credit application. Depending on factors such as the nature of the applicant, magnitude of credit, its risk rating, the client type or a specific policy issue, a third concurring signature may sometimes be required, as defined in the Credit Policy Manual.

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where specialized industry knowledge is required.

Limit setting is based on a combination of factors, including a detailed evaluation of each borrower's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support). Credit and Marketing functions are segregated. Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports into Operations & Technology Group.

The Group has established cross border country limits for managing transferability and convertibility cross border risks. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on policy terms defining acceptable country credit risk tolerance norms.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are likewise approved as per guidelines set out by the Group's Wholesale Credit Policy Manual and are monitored by the Credit Operations Department.

Periodic reviews are also conducted by the Credit Examination teams from the Audit, Review and Compliance Group and facilities are risk graded based on criterion established in the Credit Policy Manual.

Credit Volatility & Concentration Risk

In 2010 the bank will develop a credit capital and portfolio management system, which inter alia will monitor the credit risk capital consumption of each transaction, obligor and (sub) portfolio. Sectors and exposures with high volatility or concentration risk will attract more capital, requiring either a higher commensurate return or some form of mitigation.

The second phase of this project will calculate the economic capital requirements for all non-credit risks and aggregate them into an economic capital model for the bank. The third phase will ensure that results are embedded into strategic risk and business plans and the ICAAP statement.

The intention is that the project will be completed by 2010.

Retail Credit Risk Management

Retail Credit Risk comprises Policy, Credit Initiation & Compliance, Collection & Recovery, and Fraud Management. The business and its risks are managed on a product basis. Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Group's Risk Committee. The evaluation of a borrower's creditworthiness is determined on the basis of statistically validated scoring models.

All approval authorities are delegated by the Risk Committee or by the Chief Executive Officer (the"CEO") acting on behalf of the Risk Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

Residual Credit Risk Management

Residual risk primarily arises as a result of insufficient collateral recovery or mitigation in the event of default. The bank has developed internal risk models, which include a residual recovery rate that is reviewed at least once annually, (more frequently in the case of downturns), the results of which are incorporated in the risk charge.

Consequently the bank is compensated for residual risk through the risk charge applied to the business and ultimately the client.

Credit Review Procedures

The Group's Credit Review Division (the "CRD") which is part of Audit, Review and Compliance Group, subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The CRD validates the risk ratings of all commercial and institutional clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

Basel II Implementation

During the period 2005 – 2009, major emphasis was placed upon developing Pillar I compliant risk rating models (PD, LGD and EL) and the development of a portfolio management system centered upon Pillar I risk metrics. In due course it is the bank's intention to migrate from the Standardized Approach to the IRB approach for credit risk.

The current year was spent, inter alia, ensuring that all models have been validated, documentation and historical recording and archiving is complete, all data has been consolidated into a single database and developing a fully integrated IT platform, which will be rolled out in 2010.

Current emphasis is being placed on developing a robust Pillar II compliant platform that will provide effective capital assessment and portfolio management, with solid external reporting capability.

IT systems

In order to foster best practices in its IT systems and to ensure state-of-the-art responses to Basel II requirements, Mashreqbank has redesigned its Credit Risk IT Systems.

- **Wholesale**

All Basel II related metrics are generated by a stand-alone IT system independently controlled by the Credit Risk and Control Unit (CRCU).

Wholesale has been involved in a five year project to integrate its Risk Management IT requirements to provide a seamless data solution from transaction origination through to web-based portfolio reporting. A major project is underway to consolidate all data, including Basel II outputs, onto a single platform.

- **Retail**

Data is generated from the core banking system and SAS is used for Basel II analytical purposes. The bank is investing in a new core banking system (I-Flex) that will provide the foundation for effective data management in future years.

Data Management

- **Wholesale**

A team of data input specialists has been employed since the inception of model building and validation in 2005. Their specific function is to check credit applications, rating sheets and related documentation, monitor data accuracy, and reconcile and clean data as required.

The IT project described above should ensure that data management is migrated from a manual process to full automation in 2010 / 11.

- **Retail**

All data is reconciled with the general ledger at a portfolio aggregate level to ensure accuracy and completeness.

Historical data has been archived since June 2002 for all scored products and is housed in a SQL Data mart.

1.3. Management of Market & Related Risks

1.3.1. Market Risk Management

Market risk comprises the Group's exposure to adverse movements in market prices (general and specific interest rates, foreign exchange rates, equity and commodity prices and others) and is primarily generated by Treasury and Capital Market (TCM) activities. As a general rule, market risks generated by the other businesses are hedged.

Market Risk Management is an independent group that oversees market risk. The primary objectives of Market Risk Management are to:

- Define and implement policies and procedures regarding market risk
- Develop a comprehensive market risk limit setting and monitoring capability
- Perform the necessary market risk analysis
- Develop robust stress testing analysis
- Ensure compliance with market risk management regulatory requirements

Market risk is monitored by translating senior management's Risk Appetite into proper limits. Proprietary trading for the account of the Group is managed by limits set by the ALCO and/or Investment Committee. The Group classifies exposures to market risk into two distinct measures:

a) Trading Risk, and
b) Asset Liability Mismatch (ALM) Risk

Trading risk is the risk of loss on liquid, trading positions due to adverse market price changes. Market Risk Management uses a wide array of custom techniques, including exposure measures, factor sensitivities, Value-at-Risk (VaR) and Stress Scenarios to analyze portfolios.

The Group uses VaR as a general statistical measure of risk that is used to equate risk across products and aggregate risk on a portfolio basis, from the corporate level down to the individual trading desk. VaR is calculated using Risk Metrics and is intended to estimate the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level (99% in line with Basel II), and over a specific time period.

The Group uses the Monte Carlo approach, to simulate a large number of asset distributions and re-order the outcomes to determine the percentile VaRs.

Market Risk Management monitors and reports counterparty and settlement risk. The potential credit exposure (PCE) arising from pre-settlement risk on derivative and related transactions is derived through the use of a full revaluation Monte Carlo simulation based estimation of credit exposure, taking into account market based correlations and volatilities, portfolio effects and netting, at a 95% confidence level.

For economic capital management purposes the requirement is calculated based on VaR analysis using a twelve month time horizon and a 99.9% confidence level.

1.3.2. Liquidity Risk Management

Liquidity Risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due. This is a key franchise risk, which, together with credit risk, constitutes the highest risk facing any bank in the UAE.

Management of Liquidity Risk

Senior management's focus on liquidity management is to:

- Better understand the various sources of liquidity risk, particularly under stressed conditions.
- Develop effective contingency plans.
- Develop a comprehensive approach to management of liquidity risk to ensure that it is line with the Group's overall risk appetite.
- Improve resilience to a sharp decline in market liquidity and to demonstrate that we can survive the closure of one or more funding markets by ensuring that finance can be readily raised from a variety of sources.

The Assets and Liabilities Committee ("ALCO") has a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Group's operation on the basis of such review.

To measure and monitor its liquidity, the Group uses various indicators including the regulatory ratio of Utilization of Funds to Stable Resources. Other indicators include Advances to Deposits and Stable Funds Ratio, Liquid Assets to Deposits ratio and Liquid assets to adjusted assets ratio.

The Treasury function in the Group is responsible for managing liquidity and it follows strict guidelines for deployment of liquid assets within each liquidity bucket. Periodic stress tests are performed to ensure the availability of funds during stressed situations. Inter-bank borrowing lines and repo facilities with global banks are part of the contingency funding options maintained by the Treasury.

Liquidity Concentration Risk

All the banks in the UAE are subject to high depositor concentration. Over the years, the Group has successfully introduced various cash managed products and retail savings' schemes which have enabled it to mobilize low cost, broad base deposits, as well as increasing the tenor of deposits.

In order to diversify funding sources, the EMTN program was launched in 2004, under which the bank has till date raised significant medium-term borrowings.

1.3.3. Asset Liability Mismatch (ALM) Risk Management

The Asset Liability Mismatch ("ALM") risk arises through the structural mismatch between liquid assets and liabilities on the banking book.

During the recent crisis the bank took various remedial measures to improve its liquidity position. These, amongst others, included

1. Reducing the Advances-to-Deposit ratio to very conservative norms, well below the 100% UAE Central Bank guideline
2. Doubling the bank's Liquid Asset : Total Asset ratio to very conservative levels to ensure that short term net outflows could be more than matched by the prompt monetization of liquid assets. The large majority of the bank's liquid assets are high quality, consisting of cash and Central Bank CDs
3. Reducing undrawn committed exposures
4. Monitoring and reducing other sources of contingent outflows
5. Reducing tenors where applicable
6. Re-pricing transactions for market disruption
7. Winding down off balance sheet exposures with the potential to become on balance sheet

These remedial and similar actions will form the basis of the **Liquidity Contingency Funding Plan** for inclusion in the ICAAP.

Internal Capital Adequacy Assessment Process (ICAAP)

In 2010 the main emphasis will be on Pillar II issues, primarily liquidity and capital management.

In December 2009 the Basel Committee published the "International Framework for Liquidity Risk measurement, standards and monitoring" Report. This Report is currently under discussion.

The Report highlighted that

- The Short Term Liquidity Funding Ratio proposed should ensure that banks have sufficient funds to survive an acute stress scenario lasting one month.
- The Stock of High Quality Liquid Assets, as measured should be greater than the net cash outflow incurred under an acute stress scenario.

Based upon measures 1 and 2 adopted above the bank feels comfortable that it would meet these requirements were the recommendations implemented already.

During 2010 a more formal Liquidity Risk Tolerance Statement will be developed, which, together with the bank's Risk Appetite & Risk Capacity Statement, will provide a sound foundation for Strategic Planning & Management as well as ICAAP reporting.

During the annual planning process, the business plan is used to determine future liquidity and capital requirements, which are then compared with the bank's funding capacity to ensure an acceptable liquidity gap profile is targeted.

1.3.4. Interest Rate Risk Management

Pillar I covers interest rate risk in the trading book and treats it as a market risk confined primarily to Treasury and Capital Market (TCM) trading book.

Pillar II covers the broader issue of interest rate risk in the banking book, which is an enterprise risk.

- **Interest Rate Risk in the Trading Book (IRRTB)**

IRRTB is primarily derived from the debt securities portfolio, interest rate swaps, and a very small bond futures portfolio.

For Pillar I measurement purposes the bank has adopted the maturity method and is using the methodology and table specified in paragraph 718(iv) of the International Convergence of Capital Measurement and Capital Standards framework (The Basel II Accord).

- **Interest Rate Risk in the Banking Book (IRRBB)**

Interest Rate Risk in the Banking Book arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities (ALM risk).

The Group uses simulation-modeling tools to measure and monitor interest rate sensitivity. The results are analyzed and monitored by the Assets and Liabilities Committee ("ALCO"). Since most of the Group's assets and liabilities are floating rate, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The ALM gap methodology is supported by Earnings-at-Risk shock analysis performed on a quarterly basis. ALCO's policy is that a 100 basis point shock movement in the benchmark interest rate should not have more than a 5% impact upon annualized Net Interest Income (NII). For every quarter since testing began, the results to date indicate that potential losses are well within the policy limit.

1.3.5. Equity Risk in the Banking Book

Equity Risk in the Banking Book arises from the possibility that changes in market prices / indices can adversely affect the value of stocks and securities. The bank's exposure to this risk is immaterial.

1.3.6. Property & Investment Risk Management

This risk applies to properties owned by the bank and long-term investments in subsidiaries, associates and other investments. The risk attached to volatility in all other investments is captured under Market Risk.

The bank is not exposed to material property or investment risk since its material properties and investments are either not intended for disposal or held to maturity.

For economic capital purposes the capital requirement will be based upon the long-term volatility of the underlying indices.

1.3.7. Currency Risk Management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored.

The exchange rate of the AED against the US Dollar has been pegged since November 1980 and the Group's exposure to currency risk is limited to that extent. The majority of the bank's spot positions are USD Dollar denominated; any other material spot positions are denominated in GCC currencies which are also pegged to the US Dollar.

In the event of the AED being de-linked from a (weakening) US Dollar, the bank has hedged or reduced its medium and long term US Dollar risk.

1.4. Management of Operational & Related Risks

1.4.1. Operational Risk Management

Operational risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

A comprehensive operational risk framework has been designed and documented; a system automating this framework has also been designed and implemented in 2009. The framework envisages each of the business units identifying, monitoring and managing the operational risks in their portfolio. A comprehensive governance framework is in place to establish, assessor, reviewer and oversight roles for identification and management of operational risks across all areas of the bank.

The Risk Management Committee is responsible for the overall management of the aggregated operational risks for Mashreq. Action plans for risks assessed as high risk are documented and tracked on the system. Risk profiles and dashboards are in place for units to monitor the operational risks in each area. The entire framework is subject to audit review.

The Operations division of the bank is the risk owner for management of insurance risks. Operational risk as an independent unit performs an annual review of the policies in force to evaluate adequacy of the policy with regard to scope to claim rebate on operational risk capital required to be maintained. Review feedback is provided to operations in the form of a detailed review report, highlighting gaps noted and supported by recommendation to mitigate identified gaps if any.

The implementation of operational risk relies on several key building blocks.

Operational Risk Event Data Collection

The systematic capture and follow-up of risk events is one of the most important requirements of Basel II.

Setting up a procedure for the risk events data collection both enables Mashreqbank to be compliant with regulatory requirements, and provides very valuable information in order to improve the quality of the internal control system and to determine the operational risk profile.

Risk and Control Self-Assessment (RCSA)

In addition to building a history of losses, it is also necessary to determine the bank's exposure Bank to material risks through a risk mapping of all significant activities. This objective is achieved through bottom-up Risk and Control Self-Assessment exercises, carried out by all entities within the Group. These exercises provide a good view of the Operational Risk Heat Map within each entity and activity; they also provide an opportunity to assess the quality of the control environment.

1.4.2. Business Risk Management

Business Risk is the risk caused by uncertainty in profits due to changes in the competitive environment that damage the franchise or operational economics of a business. Business Risk comprises two distinct elements – new business and in-force business.

- New business acquisition (expected volumes, margins and costs from business yet to be written).
- Existing business (expected volumes, margins and costs from business that has already been written).

Business Risk for new business acquisition is defined as the risk of loss (to the relevant confidence level and over the framework time horizon) caused by the potential for new business volumes and margins to fail to cover the expense base.

Business Risk for the existing book is defined as the risk of loss caused by a decline in business volumes due to competitive, recessionary or other conditions.

For new business the worst case scenario is that no new business is generated, but fixed and set up costs are incurred. In the current environment the bank is not contemplating any substantial new ventures, consequently the risk is not material.

For existing business a detailed ongoing review of all business units is conducted to assess whether marginally performing units should be rationalized or closed.

During the current downturn, the bank has taken significant steps to reduce its efficiency ratios, primarily the cost-to-income ratio. As a result the risk of declining business volumes has been mitigated by a reduction in overhead costs.

Quantifying Business Risk

For economic capital purposes Business Risk will be quantified using an analogue approach similar to the Standardized Approach methodology employed in Operational Risk.

1.4.3. Insurance Risk Management

Insurance risk is managed within the ambit of operational risk. A detailed review of all insurance policies is undertaken annually to ensure comprehensive completeness.

1.5. Other risks

1.5.1. Regulatory Risk

Regulatory Risk is the risk that a change in laws and regulations will materially impact the bank and / or its market / client base. A change in laws or regulations made by the government or a regulatory body can increase the costs of operating a business, reduce the attractiveness of investment or change the competitive landscape.

Given the regulatory stability of its domestic market the bank does not consider regulatory risk to be a material risk. The bank does not have material exposure in countries deemed to be high-risk from a regulatory or legal perspective.

Regulatory risk can also arise from a failure to abide with existing regulatory requirements and expectations. This risk is managed through strong corporate governance and compliance rules.

1.5.2. Reputation Risk

Reputation risk is the risk of loss due to the deterioration of Mashreqbank's reputation. This risk is managed through strong corporate governance and compliance rules and stringent internal controls within the Group.

1.5.3. Legal Risk

Legal risk is managed through strict corporate governance, reporting and compliance guidelines, as well as operational risk identification and control. During the year the bank completed an extensive external review of loan documentation to reduce the legal risk attached to unenforceable documentation.

2. Scope of Application

2.1. Name of the Credit Institution to which the Requirements apply

The Pillar III disclosure requirements under the new Basel II capital framework are applicable to the group level of consolidation, namely Mashreqbank psc, also known as Mashreqbank Group.

2.2. Differences between Accounting and Pillar III Reporting

As Pillar III is applicable to banking institutions and not to insurance companies, the scope of consolidation of Pillar III differs from the scope of consolidation of the financial statements which include the fully consolidated results and Statement of Financial Position of Oman Insurance Co, as disclosed in the Mashreqbank psc Annual Report.

Since the information disclosed under Pillar III primarily relates to banking book loans and advances and similar information, the difference in consolidation and reporting does not impact Pillar III disclosure.

2.3. Restrictions on the Transfer of Funds & Regulatory Capital

No restrictions, or other major impediments, on the transfer of funds or regulatory capital within the Group exist.

3. Capital Adequacy

3.1. Capital Adequacy Assessment

The Central Bank of the UAE adopted the Basel One capital regime in 1993. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the UAE. The minimum capital ratio prescribed by the Central Bank is 11% of RWA calculated as per the guidelines issued by them.

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve (45%) relating to unrealized gains on investments classified as available-for-sale.

Based upon its Regulatory Capital Adequacy Ratio (CAR), calculated using the Pillar I approaches highlighted on page 2 of this document, the bank has sufficient excess capital to meet those losses for which capital is typically held.

3.2. Risk Appetite & Capital Planning

The bank is currently implementing a more advanced formal capital planning framework.

This includes developing an Economic Capital Management and Risk Appetite framework incorporated within the strategic business planning cycle.

The Risk Appetite framework under construction is a strategic decision support tool that aims at managing the strategic risk profile in accordance with business plans and market conditions under various stressed scenarios.

The annual strategic business planning and budgeting exercise will include projections of economic capital usage by business lines. These projections will be stress tested to determine the Risk Appetite of the bank over a one year time frame; the Risk Appetite will then be reconciled with the bank's Risk Capacity to determine the Adequacy of its Capital Surplus / Buffer.

4. Past Dues, Impaired Loans & Provisions

4.1. Definitions of Past Due and Impaired Loans / Provisions

Past Due Loans and Securities

For recognition of past due loans and securities, the bank uses the same methodology employed by Basel II:

- The loan, in full or in part, is past due by 90 days or more. Past due includes failure to service the interest.
- The bank deems that there is reasonable doubt that the loan will be recovered in full, or in part, or that the client will be able to service the debt, without recourse to collateral.

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan;
- 100% risk weight when specific provisions are 20% and above of the outstanding amount of the loan.

Past Due but not Impaired Loans and Securities

Past due but not impaired loans and securities are those loans and securities where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Impairment / Provisions

The Group establishes an allowance for impairment losses 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 established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

The Group also complies with International Accounting Standards 39 (IAS 39), in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available. As required by Central Bank of the UAE guidelines, the Group takes the higher of the loan loss provisions required under IAS 39 and Central Bank regulations.

Specific Provisioning

Financial assets
Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

(i) Individually assessed loans

These represent mainly corporate loans which are assessed individually by the Bank's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present value calculated as above.

Collective Provisioning

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

a) Performing commercial and other loans
b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the balance sheet date but were not specifically identified as such until some time in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio as per the requirements of the Central Bank of the UAE and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions.

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Impairment of retail loans is calculated by applying a formulaic approach and loans are written off when between 150-180 days past their due date depending on products' features.

Write-off Policy

Wholesale

The Group writes off a loan or security (and any related allowances for impairment losses) when the Group Credit Department determines that the loans or securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Retail

For retail and low balance SME loans, charge off decisions generally are based on a product specific past due status.

Write-offs are only generally allowed after three years from the date of which the asset has been classified as "Loss" or has been charged off.

All retail loans, with the exception of personal loans to UAE nationals and SME auto loans, are charged off when installments are past due over 150 days. Personal loans to UAE nationals and SME auto loans are charged off if installments are past due by 180 days or more.

5. Standardized Approach Methodology

5.1. Introduction

Mashreqbank is currently using the Standardized Approach for Credit Risk, covering all portfolios including Financial Institutions, Treasury & Capital Market counterparty risk as well credit risk in the Trading Book.

5.2. Nominated External Credit Assessment Institutions (ECAI)

The Standardized Approach provides weighted risk figures based on external ratings. In order to apply the Standardized Approach for risk-weighted exposures, Mashreqbank uses the external ratings assigned by the following rating agencies: Standard & Poor's, Moody's and Fitch.

ECAI Application

These ratings are applied to Sovereign, Financial Institution and large Corporate exposures

Rating Methodology

The rating used for the regulatory capital calculation is the lower of the two ratings, if two ratings are available, or the lower of the best two ratings, if three ratings are available. In case there is no external rating available, the Standardized Approach provides for specific risk-weights, usually 100% or 150% depending on the counterparty type and degree of risk.

Mapping of ECAI Ratings

The bank has developed its own internal ratings system and methodology, which has been externally developed and validated, and has been in use since 2005. This methodology is applicable to all wholesale sectors and retail products for which PD and related models have been developed.

ECAI ratings have been mapped to Internal Ratings Scale risk buckets. More details will be disclosed when the bank applies to adopt the Foundation Internal Ratings Based (FIRB) Approach.

5.3. Market Risk

There are no qualitative requirements under this topic.

5.4. Operational Risk

Mashreqbank is currently using the Basic Indicator Approach, consequently there is no specific need to address any issues under the Standardized Approach.

5.5. Compliance with Regulatory Guidelines

Mashreqbank complies with the Standardized Approach Guidelines issued by the UAE Central Bank in November 2009, as well as Guidelines published in previous publications.

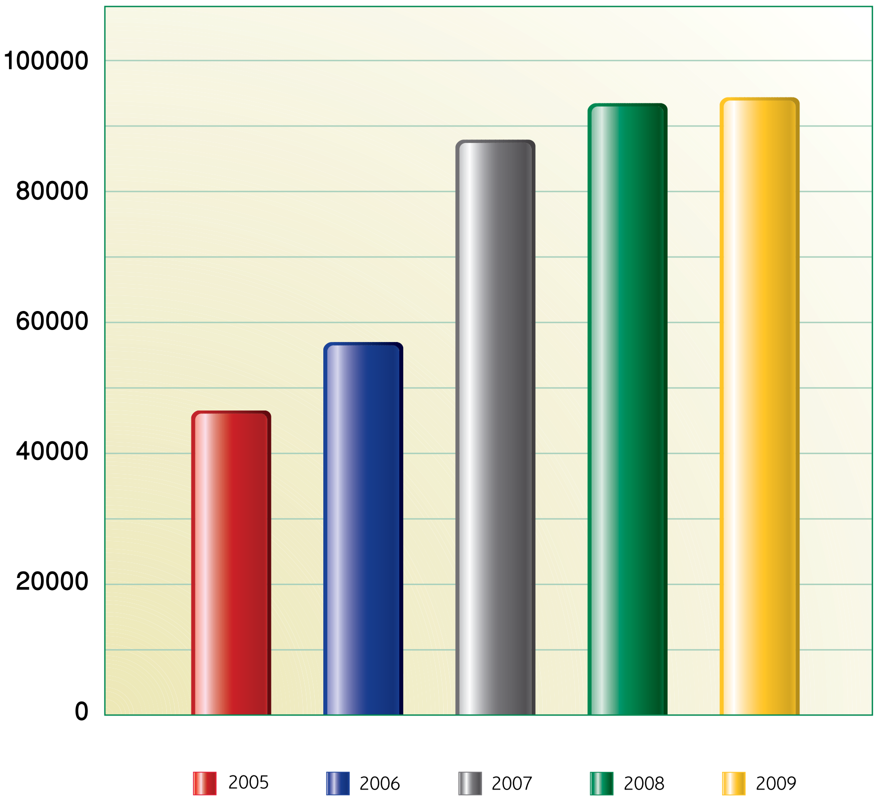
6. Securitization Activity

6.1. Securitization Exposure

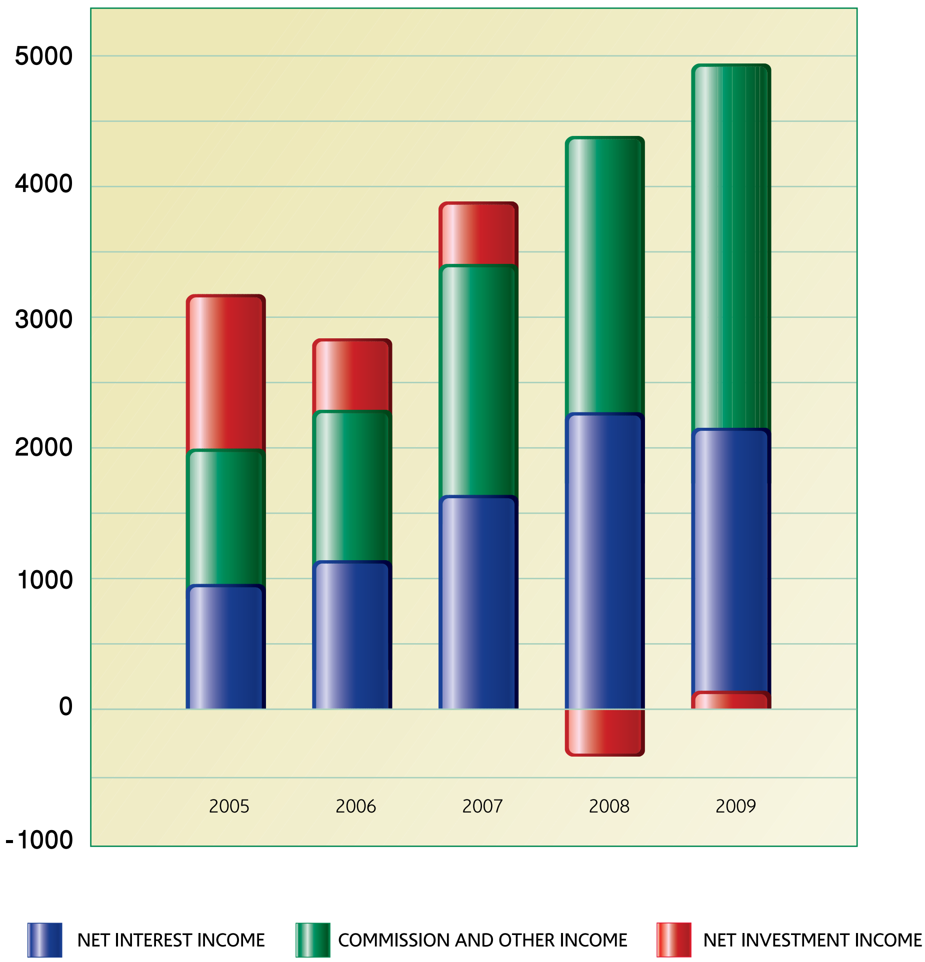
The bank does not have material securitization exposure(s) and was relatively unaffected by the sub-prime crisis. Activities are limited to investments in sukuk issues, most of which are held to maturity, the remainder being immaterial.

Financial Highlights

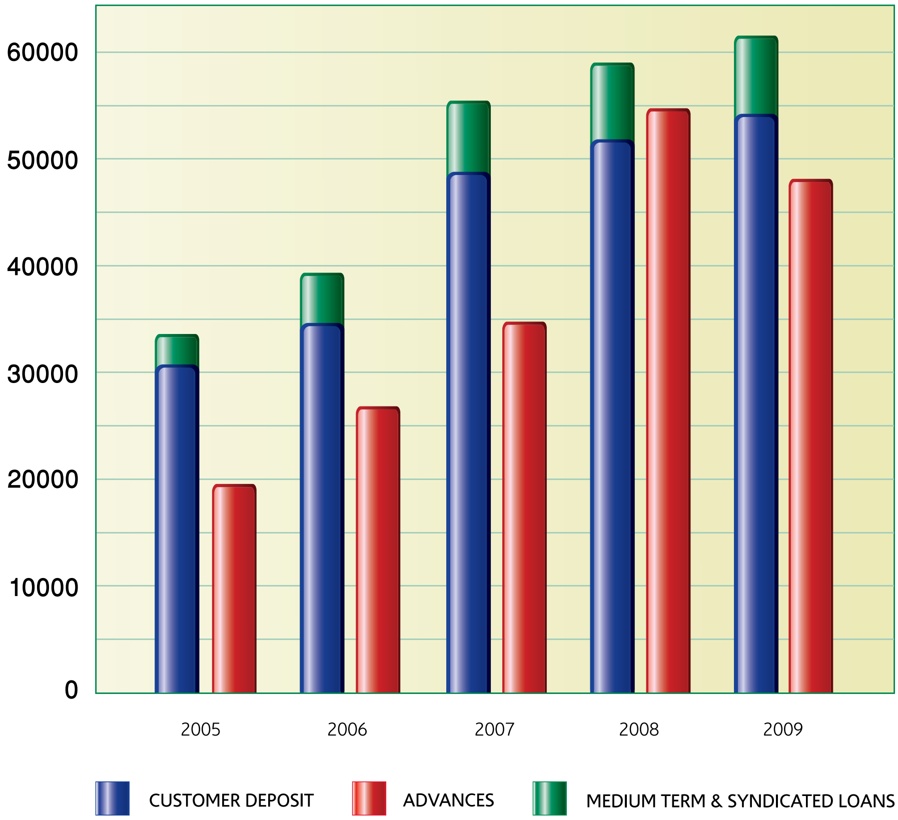
TOTAL ASSETS
MILLION DIRHAMS



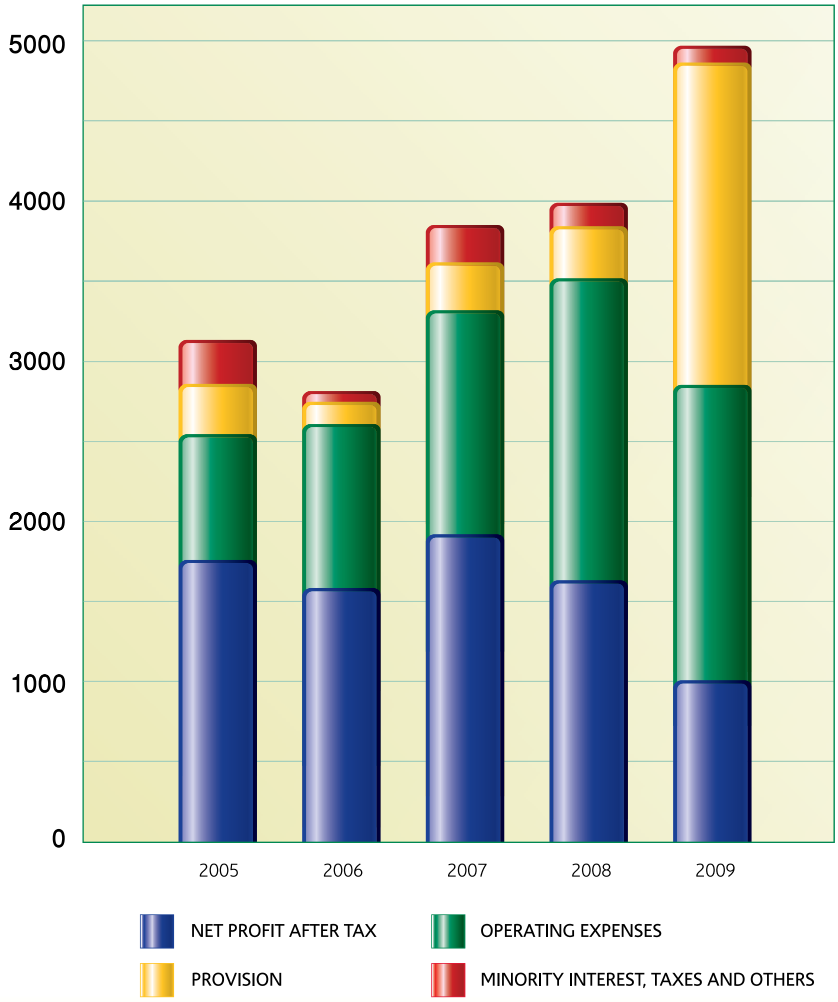
TOTAL INCOME COMPOSITION
MILLION DIRHAMS



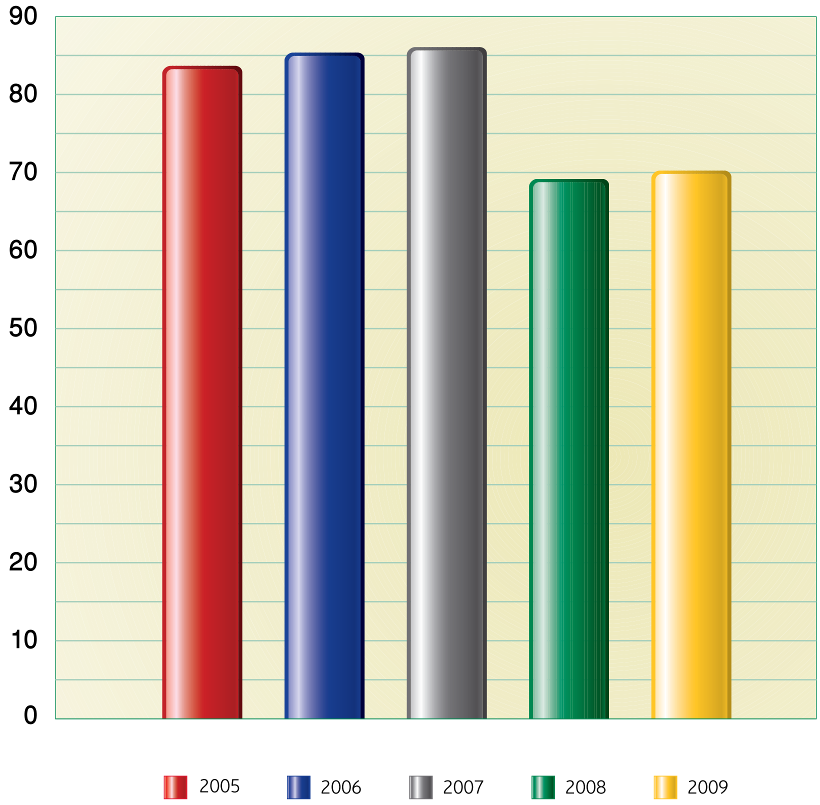
TOTAL DEPOSITS AND ADVANCES
MILLION DIRHAMS



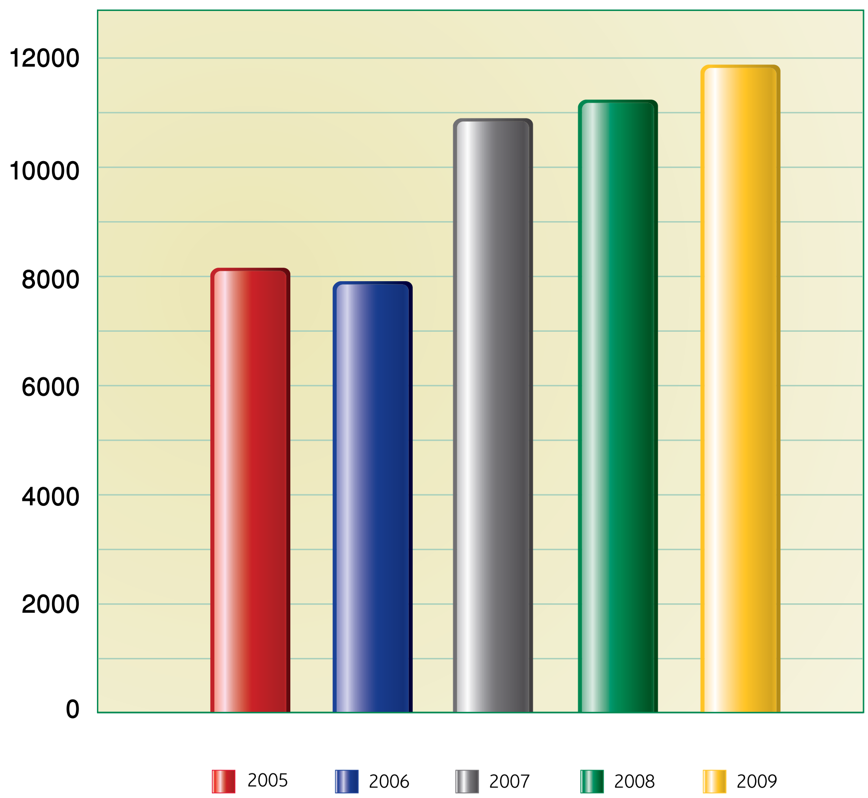
GROWTH PATTERN OF GROSS INCOME, OPERATING COSTS & NET PROFITS, AFTER TAX
MILLION DIRHAMS



BOOK VALUE PER SHARE
DIRHAMS



SHAREHOLDER'S EQUITY
MILLION DIRHAMS



Independent Auditor's Report

Independent Auditor's Report

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Mashreqbank psc (the "Bank"), a Public Shareholding Company, and its Subsidiaries (collectively the "Group"),** which comprise the consolidated statement of financial position as of December 31, 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Mashreqbank psc and its subsidiaries (the "Group"),** as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Bank has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for our audit and, to the best of our knowledge and belief, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or of the Bank's Articles of Association which might have materially affected the financial position of the Group or its financial performance.

Deloitte & Touche (M.E.)

Anis Sadek
Partner
Registration No. 521

Dubai
February 4, 2010

Group Financial Statements

Consolidated Statement of Financial Position
As of December 31, 2009

	Note	December 31, 2009 AED'000	December 31, 2009 USD'000 Equivalent	December 31, 2008 AED'000	December 31, 2008 USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**20,176,958**	**5,493,318**	6,289,386	1,712,329
Deposits and balances due from banks	6	**8,261,056**	**2,249,130**	9,077,630	2,471,448
Other financial assets measured at fair value	7 (a)	**2,211,517**	**602,101**	-	-
Financial assets carried at FVTPL	7 (b)	-	-	219,776	59,836
Loans and advances measured at amortized cost	8	**42,120,827**	**11,467,690**	48,434,274	13,186,571
Islamic financing and investment products measured at amortized cost	9	**5,609,289**	**1,527,168**	6,449,331	1,755,876
Other financial assets measured at amortized cost	7 (a)	**9,364,884**	**2,549,655**	-	-
Non-trading investments	7 (b)	-	-	13,340,431	3,632,025
Interest receivable and other assets	10	**5,428,702**	**1,478,002**	8,231,536	2,241,093
Investment properties	11	**233,649**	**63,613**	724,237	197,179
Property and equipment	12	**1,215,062**	**330,810**	476,920	129,845
Total assets		**94,621,944**	**25,761,487**	93,243,521	25,386,202
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	13	**6,971,668**	**1,898,085**	12,336,491	3,358,696
Repurchase agreements with banks	14	**8,468,768**	**2,305,681**	5,129,883	1,396,647
Customers' deposits	15	**50,796,768**	**13,829,776**	48,435,538	13,186,915
Islamic customers' deposits	16	**2,861,019**	**778,932**	3,042,027	828,213
Insurance and life assurance funds	17	**858,587**	**233,756**	802,485	218,482
Interest payable and other liabilities	18	**5,629,760**	**1,532,742**	7,568,835	2,060,668
Medium-term loans	19	**7,178,299**	**1,954,342**	5,234,025	1,425,000
Long-term loans	20	**9,583**	**2,609**	11,838	3,223
Total liabilities		**82,774,452**	**22,535,923**	82,561,122	22,477,844
EQUITY					
Capital and reserves					
Paid up capital	21(a)	**1,610,257**	**438,404**	1,463,870	398,549
Statutory and legal reserves	21(b)	**805,129**	**219,203**	740,734	201,670
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment		**(25,018)**	**(6,811)**	(33,932)	(9,238)
Investments revaluation reserve	21(d)	**(279,735)**	**(76,160)**	(649,634)	(176,867)
Retained earnings		**8,850,576**	**2,409,631**	8,231,655	2,241,125
Equity attributable to shareholders of the parent		**11,273,209**	**3,069,211**	10,064,693	2,740,183
Non-controlling interests	22	**574,283**	**156,353**	617,706	168,175
Total equity		**11,847,492**	**3,225,564**	10,682,399	2,908,358
Total liabilities and equity		**94,621,944**	**25,761,487**	93,243,521	25,386,202

The Notes 1 to 45 are an integral part of these consolidated financial statements.

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Abdulla Ahmad Al Ghurair
Chairman

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Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Consolidated Income Statement
For the year ended December 31, 2009

	Note	2009 AED'000	2009 USD'000 Equivalent	2008 AED'000	2008 USD'000 Equivalent
Interest income	24	**4,807,318**	**1,308,827**	4,575,057	1,245,592
Income from Islamic financing and investment products	25	**328,092**	**89,325**	216,935	59,062
Total interest income and income from Islamic financing and investment products		**5,135,410**	**1,398,152**	4,791,992	1,304,654
Interest expense	26	**(2,820,706)**	**(767,957)**	(2,632,701)	(716,771)
Distributions to depositors – Islamic products	27	**(211,156)**	**(57,489)**	(75,516)	(20,560)
Net interest income and income from Islamic products net of distributions to depositors		**2,103,548**	**572,706**	2,083,775	567,323
Fee and commission income	28	**2,123,681**	**578,187**	2,617,041	712,508
Fee and commission expenses	28	**(690,165)**	**(187,902)**	(1,364,271)	(371,432)
Net fee and commission income		**1,433,516**	**390,285**	1,252,770	341,076
Net investment income/(loss)	29	**108,141**	**29,442**	(217,980)	(59,347)
Other income, net	30	**1,316,860**	**358,524**	865,373	235,604
Operating income		**4,962,065**	**1,350,957**	3,983,938	1,084,656
General and administrative expenses	31	**(1,770,458)**	**(482,020)**	(1,873,962)	(510,199)
Allowances for impairment	32	**(2,114,465)**	**(575,678)**	(362,362)	(98,656)
Profit before taxes		**1,077,142**	**293,259**	1,747,614	475,801
Overseas income tax expense		**(12,603)**	**(3,431)**	(15,545)	(4,233)
Profit for the year		**1,064,539**	**289,828**	**1,732,069**	**471,568**
Attributed to:					
Shareholders of the parent		**1,000,464**	**272,383**	1,642,830	447,272
Non-controlling interests	22	**64,075**	**17,445**	89,239	24,296
		1,064,539	**289,828**	1,732,069	471,568
Earnings per share	33	**AED 6.21**	**USD 1.69**	AED 10.20	USD 2.78

The Notes 1 to 45 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2009

		2009		2008	
		AED'000	**USD'000 Equivalent**	AED'000	USD'000 Equivalent
Profit for the year		**1,064,539**	**289,828**	1,732,069	471,568
Other comprehensive income					
Changes in fair value of available for sale investments during the year		-	-	(1,465,897)	(399,100)
Changes in fair value of financial assets measured at fair value through other comprehensive income		**46,244**	**12,590**	-	-
Cumulative translation adjustment		**8,914**	**2,427**	(31,777)	(8,652)
Total other comprehensive income/(loss) for the year		**55,158**	**15,017**	(1,497,674)	(407,752)
Total comprehensive income for the year		**1,119,697**	**304,845**	234,395	63,816
Attributed to:					
Shareholders of the parent		**1,093,728**	**297,775**	450,841	122,745
Non-controlling interests	22	**25,969**	**7,070**	(216,446)	(58,929)
		1,119,697	**304,845**	234,395	63,816

The Notes 1 to 45 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the year ended December 31, 2009

	Paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	Equity attributable to share-holders of the parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at January 1, 2008	**1,126,054**	**599,009**	**312,000**	**(2,155)**	**510,578**	**7,068,366**	**9,613,852**	**870,546**	**10,484,398**
Other comprehensive loss	-	-	-	(31,777)	(1,160,212)	-	(1,191,989)	(305,685)	(1,497,674)
Profit for the year	-	-	-	-	-	1,642,830	1,642,830	89,239	1,732,069
Total comprehensive income for the year	**-**	**-**	**-**	**(31,777)**	**(1,160,212)**	**1,642,830**	**450,841**	**(216,446)**	**234,395**
Transfer to statutory and legal reserves	-	141,725	-	-	-	(141,725)	-	-	-
Payment of dividends	-	-	-	-	-	-	-	(35,972)	(35,972)
Bonus shares issued	337,816	-	-	-	-	(337,816)	-	-	-
Reduction in non-controlling interest	-	-	-	-	-	-	-	(422)	(422)
Balance at December 31, 2008	**1,463,870**	**740,734**	**312,000**	**(33,932)**	**(649,634)**	**8,231,655**	**10,064,693**	**617,706**	**10,682,399**
Effect of change in the accounting policy for financial instruments - recognition and measurement (IFRS 9) – (Note 2)	-	-	-	-	285,549	(24,374)	261,175	(15)	261,160
Balance at January 1, 2009 – restated	**1,463,870**	**740,734**	**312,000**	**(33,932)**	**(364,085)**	**8,207,281**	**10,325,868**	**617,691**	**10,943,559**
Other comprehensive income/(loss)	-	-	-	8,914	84,350	-	93,264	(38,106)	55,158
Profit for the year	-	-	-	-	-	1,000,464	1,000,464	64,075	1,064,539
Total comprehensive income for the year	**-**	**-**	**-**	**8,914**	**84,350**	**1,000,464**	**1,093,728**	**25,969**	**1,119,697**
Transfer to statutory and legal reserves	-	64,395	-	-	-	(64,395)	-	-	-
Payment of dividends	-	-	-	-	-	(146,387)	(146,387)	(69,377)	(215,764)
Bonus shares issued	146,387	-	-	-	-	(146,387)	-	-	-
Balance at December 31, 2009	**1,610,257**	**805,129**	**312,000**	**(25,018)**	**(279,735)**	**8,850,576**	**11,273,209**	**574,283**	**11,847,492**

The Notes 1 to 45 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended December 31, 2009

	2009		2008	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities				
Profit for the year	**1,064,539**	**289,829**	1,732,069	471,568
Adjustments:				
Depreciation of property and equipment	**110,274**	**30,023**	82,727	22,523
Allowance for impairment	**2,114,465**	**575,678**	362,362	98,656
Gain from sale of property and equipment	**(214,689)**	**(58,451)**	(57,730)	(15,717)
Other income from redemption of floating rates notes	**(151,871)**	**(41,348)**	-	-
Fair value (gains)/losses of FVTPL investments	**(45,594)**	**(12,413)**	192,203	52,329
Fair value (gains)/losses of investment property	**174,464**	**47,499**	(152,467)	(41,510)
(Recovery)/impairment of available for sale investments	**(4,501)**	**(1,225)**	35,012	9,532
Amortization of investments revaluation reserves of reclassified investments	**5,963**	**1,623**	20,226	5,507
Available for sale investments written off	**-**	**-**	68,612	18,680
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	**(261,538)**	**(71,206)**	(827,898)	(225,401)
Decrease in bank deposits maturing after three months	**1,958,634**	**533,252**	1,678,607	457,013
Decrease/(increase) in loans and advances measured at amortized cost	**4,623,577**	**1,258,802**	(15,794,727)	(4,300,225)
Decrease/(increase) in Islamic financing and investing products measured at amortized cost	**831,315**	**226,331**	(4,255,435)	(1,158,572)
Decrease/(increase) in interest receivable and other assets	**2,744,209**	**747,131**	(2,759,764)	(751,365)
(Increase)/decrease in financial assets carried at FVTPL	**(146,797)**	**(39,967)**	5,638,460	1,535,110
Increase in repurchase agreements with banks	**3,338,885**	**909,035**	1,295,570	352,728
Increase in customers' deposits	**5,772,439**	**1,571,587**	2,302,024	626,742
Decrease/(increase) in Islamic customers' deposits	**(181,008)**	**(49,281)**	888,829	241,990
Decrease in medium-term loans	**(1,347,448)**	**(366,852)**	-	-
Decrease in long-term loans	**(2,255)**	**(614)**	(4,869)	(1,326)
Decrease in deposits and balances due to banks	**(5,364,823)**	**(1,460,611)**	(1,060,533)	(288,738)
Increase in insurance and life assurance funds	**56,102**	**15,274**	285,590	77,754
(Decrease)/increase in interest payable and other liabilities	**(1,939,075)**	**(527,927)**	1,709,800	465,505
Net cash provided by/(used in) operating activities	**13,135,267**	**3,576,169**	(8,621,332)	(2,347,217)
Cash flows from investing activities				
Purchase of property and equipment	**(368,929)**	**(100,444)**	(181,922)	(49,530)
Proceeds from sale of property and equipment	**245,375**	**66,805**	63,666	17,334
Net decrease/(increase) in non-trading investments	**2,416,394**	**657,880**	(6,130,414)	(1,669,048)
Net cash provided by/(used in) investing activities	**2,292,840**	**624,241**	(6,248,670)	(1,701,244)
Cash flows from financing activities				
Dividend paid	**(215,764)**	**(58,743)**	(35,972)	(9,794)
Net capital withdrawn by non-controlling interests	**-**	**-**	(422)	(115)
Net cash used in financing activities	**(215,764)**	**(58,743)**	(36,394)	(9,909)
Net increase/(decrease) in cash and cash equivalents	**15,212,343**	**4,141,667**	(14,906,386)	(4,058,371)
Net foreign exchange difference	**8,914**	**2,427**	(31,788)	(8,652)
Cash and cash equivalents at January 1,	**8,270,818**	**2,251,788**	23,208,992	6,318,811
Cash and cash equivalents at December 31, (Note 35)	**23,492,075**	**6,395,882**	8,270,818	2,251,788

The Notes 1 to 45 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the Year ended December 31, 2009

1. General information

Mashreqbank psc (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank operates through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

At December 31, 2009, Mashreqbank psc Group (the "Group") comprises of the Bank and the following subsidiaries:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Osool - a Finance Company (PJSC)	United Arab Emirates	98	98	Finance company.
Oman Insurance Company (PSC)	United Arab Emirates	63.65	63.65	Insurance company.
Mindscape Information Technology L.L.C.	United Arab Emirates	99	99	Software/Application provider.
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage.
Injaz Services FZ LLC	United Arab Emirates	100	100	Service provider.
Al-Badr Islaic Finance (PJSC)	United Arab Emirates	99.70	99.70	Islamic finance company.
Mashreq Capital (DIFC) Limited	United Arab Emirates	100	100	Brokerage, asset management & fund management.
Al Yamama Services FZ LLC	United Arab Emirates	100	100	Service provider.
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund Manager.
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund Manager.
Bracebridge Limited	British Virgin Islands	*	100	Special purpose vehicle.
Orriston Limited	British Virgin Islands	*	100	Special purpose vehicle.

* Bank participation in capital is nominal, however the above subsidiaries are considered to be subsidiaries by virtue of control.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

2. Adoption of new and revised International Financial Reporting Standards

Standards and interpretations affecting amounts reported in the current year

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these consolidated financial statements. Details of further Standards and Interpretations adopted in these consolidated financial statements but that have had no effect on the amounts reported are set out separately below.

Standards affecting presentation and disclosure

IAS 1 (as revised in 2007) Presentation of Financial Statements	IAS 1(2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
IFRS 7 Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments. (see Note 42)
IFRS 8 Operating Segments	IFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segments. (see Note 38)
IFRS 9 Financial Instruments: Recognition and Measurement	IFRS 9 prescribes the classification and measurement of financial assets and completes the first phase of the project to replace IAS 39 Financial instruments: Recognition and Measurement. The impact on the consolidated financial statements is described below.

IFRS 9 Financial Instruments: Recognition and Measurement

The Group has adopted IFRS 9 Financial Instruments (IFRS 9) in 2009 in advance of its effective date. The Group has chosen December 31, 2009 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets) as this is the first reporting period end since the Standard was issued on November 12, 2009. The Standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

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

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

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

2. Adoption of new and revised International Financial Reporting Standards (continued)

Standards and interpretations affecting amounts reported in the current year (continued)

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

All derivatives, including embedded derivatives that are embedded in financial liabilities or host contracts outside the scope of IAS 39 that are separately accounted for, are classified FVTPL, except if designated in an effective cash flow hedge or hedge of a foreign operation hedge accounting relationship. In accordance with IFRS 9, embedded derivatives within the scope of that Standard are not separately accounted for financial assets.

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

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

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

This change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures was applied.

The impact of this change in accounting policy at the beginning of the current year (as at January 1, 2009) has been to decrease retained earnings opening balance by AED 24.4 million and to increase investments revaluation reserves opening balance by AED 285.5 million as follows:

	Retained earnings	Investment revaluation reserves
	AED '000	AED '000
Due to reclassification of financial assets to:		
Financial assets measured at FVTPL	(35,714)	27,297
Financial assets measured at FVTOCI	4,056	(2,307)
Financial assets measured at amortized cost	7,284	260,559
	(24,374)	**285,549**

Had IFRS 9 not been adopted during the current year, the consolidated income statement would have been impacted by a decrease in profit by AED 367 million (Out of which AED 232 million is attributable to shareholders of the parent) resulting from impairment of available for sale investments.

Additional disclosures required, reflecting the revised classification and measurement of financial assets of the Group as result of adopting IFRS 9, are shown in Note 7 and 39 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

2. Adoption of new and revised International Financial Reporting Standards (continued)

Standards and interpretations adopted with no effect on the consolidated financial statements

The following new and revised Standards and Interpretations have also been adopted in these consolidated financial statements. Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures regarding reclassifications of financial assets	The amendments to IAS 39 permit an entity to reclassify non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) categories in very limited circumstances. Such reclassifications are permitted from 1 July 2008. As the Group has adopted IFRS 9 in 2009 and applied the Standard retrospectively for classification and measurement of its financial assets, these amendments to IAS 39 do not apply to the Group.
Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)	The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 Financial Instruments: Recognition and Measurement.
IFRS 13 Customer Loyalty Programmes	The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
IFRIC 18 Transfers of Assets from Customers	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18: Revenue.
Improvements to IFRSs (2008)	Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 Annual Improvements to IFRSs majority of which are effective for annual periods beginning on or after January 1, 2009.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

2. Adoption of new and revised International Financial Reporting Standards (continued)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of these consolidated financial statements the following Standards and Interpretations were in issue but not yet adopted:

IFRS 1	(Revised) First time Adoption of IFRS - Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for annual periods beginning on or after July 1, 2009);
IFRS 1	(Revised) First time Adoption of IFRS - Amendment on additional exemptions for first-time adopter (effective for annual periods beginning on or after January 1, 2010);
IFRS 2	(Revised) Share-based Payment- Amendment relating to Group cash-settled share based payment (effective for annual periods beginning on or after January 1, 2010);
IFRS 3	(Revised) Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) Consolidated and Separate Financial Statements, IAS 28 (revised) Investments in Associates and IAS 31 (revised) Interests in Joint Ventures (effective for annual periods beginning on or after July 1, 2009);
IAS 24	(Revised) Related Party Disclosures – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government (effective for annual periods beginning on or after January 1, 2011);
IAS 27	(Revised) Consolidated and Separate Financial Statements - Amendment relating to Cost of an Investment in a Subsidiary (effective for annual periods beginning on or after July 1, 2009);
IAS 32	(Revised) Financial Instruments: Presentation – Amendments relating to classification of Rights Issue (effective for annual periods beginning on or after February 1, 2010);
IAS 39	(Revised) Financial Instruments: Recognition and Measurement – Amendments relating to Eligible Hedged Items (such as hedging Inflation risk and Hedging with options) (effective for annual periods beginning on or after July 1, 2009);
Others	Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38 and IAS 39 resulting from April 2009 Annual Improvements to IFRSs (Majority effective for annual periods beginning on or after January 1, 2010);
IFRIC 9	Amendment to IFRIC 9 (revised): Reassessment of Embedded Derivatives relating to assessment of embedded derivatives in case of reclassification of financial assets out of the FVTPL category;
IFRIC 14	Amendment to IFRIC 14: IAS 19 The limit on a defined Benefit Asset - Minimum Funding Requirement and their interaction (effective for annual periods beginning on or after January 1, 2011);
IFRIC 16	Hedges of a Net Investment in a Foreign Operation - The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations interaction (effective for annual periods beginning on or after July 1, 2009);
IFRIC 17	Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009); and
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010).

The management anticipates that the adoption of these Standards and Interpretations will have no material financial impact on the consolidated financial statements of the Group in the period of initial application.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the U.A.E. requirements as related to the measurement and classification of properties acquired in settlement of debts and impairment of loans and advances.

(b) Basis of preparation

The consolidated financial statements of the Group are prepared under the historical cost basis except for certain financial instruments and investment properties which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below:

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed off. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

(d) Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognized within 'interest income' and 'interest expense' in the consolidated income statement using the effective interest method.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. **Significant accounting policies** (continued)

(d) **Revenue recognition** (continued)

Interest income and expense (continued)

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Commission and fee income are generally accounted for on the date the transaction arises. Recoveries in respect of loans previously provided for are accounted for on a cash receipt basis.

Dividend revenue

Dividend revenue from investments is recognized in the consolidated income statement when the Group's right to receive payment has been established.

Insurance contracts revenue

Premiums on general insurance policies are accounted for on the date of writing off policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

Premium on life assurance policies are accounted for on the date of writing off policies and on subsequent due dates.

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the consolidated income statement when incurred.

Rental income

The Group's policy for recognition of revenue from operating leases is described below.

(e) **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(f) Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in U.A.E. Dirham (AED), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

The presentation currency of the Group is the U.A.E. Dirham (AED); however, for presentation purposes only, additional columns for US Dollar (USD) equivalent amounts have been presented in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a conversion rate of USD 1.00 = AED 3.673.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in consolidated income statement in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in consolidated income statement on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's cumulative translation adjustment. Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed off.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, except for capital work-in-progress and properties acquired in settlement of debts which is carried at cost less any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land and capital work in progress, using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Properties for own use	20 - 25
Furniture, fixtures, equipments and vehicles	3 - 7
Improvements to freehold properties and others	5 - 10

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(g) Property and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Capital work in progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

(h) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in the consolidated income statement in the period in which they arise.

(i) Impairment of tangible assets

At end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the consolidated income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(k) Financial assets

All financial assets are recognised and derecognised on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs that are directly attributable to the acquisition of the financial asset, except for those financial assets measured subsequently at fair value through profit or loss, which are initially measured at fair value.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets as per IFRS 9

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

Classification of financial assets

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

Financial assets measured at amortized cost

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortized cost if both of the following conditions are met:

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss (FVTPL)). They are subsequently measured at amortized cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis in net investment income in the consolidated income statement.

Subsequent to initial recognition, the Group is required to reclassify debt instruments from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria is no longer met.

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

Financial assets measured at FVTPL

Debt instrument financial assets that do not meet the amortized cost criteria described above, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. **Significant accounting policies** (continued)

(k) **Financial assets** (continued)

Financial assets as per IFRS 9 (continued)

Financial assets measured at FVTPL (continued)

Subsequent to initial recognition, the Group is required to reclassify debt instruments from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria starts to be met and the instrument's contractual cash flows meet the amortized cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in consolidated income statement. The net gain or loss recognised in consolidated income statement is included in the net investment income in the consolidated income statement. Fair value is determined in the manner described in note 42.

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

Financial assets at FVTOCI

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

A financial asset is held for trading if:

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

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

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated income statement. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortized cost, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognised in the other income in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(k) Financial assets (continued)

Financial assets as per IAS 39 – applicable for comparative figure only and financial assets that have already been derecognized at date of initial application

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments' (HTM), 'available-for-sale' (AFS) financial assets and 'loans and advances' classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. The net gain or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Non-derivative financial assets held by the Group that are classified as AFS financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the consolidated income statement for the period.

Dividends on AFS equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(k) Financial assets (continued)

Financial assets as per IAS 39 – applicable for comparative figure only and financial assets that have already been derecognized at date of initial application (continued)

AFS financial assets (continued)

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

All loans and advances are initially measured at cost, being the fair value of the consideration given.

Loans and advances originated or acquired by the Group that are not quoted in an active market and for which fair value has not been hedged, and those that are to be held to maturity, are stated at amortized cost less any amount written off and allowance for impairment.

Allowance for impairment is made against loans and advances when their full recovery as per contracted terms is in doubt taking into consideration IFRS requirements for fair value measurement and Central Bank of the U.A.E. guidelines.

Impairment of financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed for indicators of impairment at each reporting date. Financial assets measured at amortized cost are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset measured at amortized cost, the estimated future cash flows of the investment have been impacted. For financial assets measured at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly with the exception of loans and advances where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated income statement.

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

(i) Individually assessed loans

These represent mainly corporate loans which are assessed individually by the Group's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present value calculated as above.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. **Significant accounting policies** (continued)

(k) Financial assets (continued)

Impairment of loans and advances (continued)

Impairment of loans and advances are assessed as follows:

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

a) Performing commercial and other loans
b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the reporting date but were not specifically identified as such until some time in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions and taking into account the requirements of the Central Bank of the U.A.E.

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Impairment of retail loans is calculated by applying a formulaic approach and loans are written off when they past due date by more than 180 days.

De-recognition of financial assets

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(l) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

De-recognition of financial liabilities

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(m) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts or when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(n) Derivative financial instruments

The Group, for non proprietary purposes, deals with derivative such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased).

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

(o) Insurance claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries are charged to income as incurred. Provision for incurred but not reported claims is included within additional reserve.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

(p) Liability adequacy test

At each reporting date the Group assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in the consolidated income statement and an unexpired risk provision created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

(q) Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provisions and are in accordance with reinsurance contract.

(r) Taxation

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

(s) Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Sharia'a Supervisory Board.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. **Significant accounting policies** (continued)

(s) **Islamic financing and investment products** (continued)

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

Ijara

An agreement whereby the Group acting as a lessor, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Mudaraba

An agreement between the Group and a customer whereby the Group would provide a certain amount of funds, which the customer would then invest in a specific enterprise or activity against a specific share in the profit. The customer would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

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

(ii) Accounting policy

Islamic financing and investing products are measured at amortized cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3 (K)). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

3. Significant accounting policies (continued)

(s) Islamic financing and investment products (continued)

(iii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijara

Ijarah income is recognised on effective profit rate basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

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 income on their declaration by the Mudarib.

Wakala

Estimated income from Wakala is recognized 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.

(t) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortized cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Sharia'a Supervisory Board.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment of financial assets measured at amortized cost and loans and advances

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortized cost is described in Note 3(k). Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loans and advances book based on market trend and historical pattern of defaults. For retail loans and advances impairment is calculated based on formulaic approach depending on past due instalments and payments.

The allowance for loans and advances losses is established through charges to income in the form of an allowance. Increases and decreases in the allowance due to changes in the measurement of the impaired loans and advances are included in the allowance for loans and advances losses and affect the consolidated income statement accordingly.

Individually assessed loans and advances

Impairment losses for individually assessed loans and advances are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to, the portfolio-based approach.

The following factors are considered when determining impairment losses on individually assessed accounts:

1. The customer's aggregate borrowings.
2. The customer's risk rating, i.e. ability to perform profitable business and generate sufficient cash to repay the borrowed amount.
3. The value of the collateral and the probability of successful repossession.
4. The cost involved to recover the debts.

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

Impaired loans and advances continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans and advances

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans and advances which may be impaired but not identified as of the reporting date.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly based on the judgement of management and guidance received from the Central Bank of the U.A.E.

Collectively assessed allowances are also made in respect of losses incurred in portfolios of retail loans with common features and where individual loan amounts are not significant.

Impairment of retail loans and advances is calculated by applying formulaic approach and loans are written off when they are past their due date by more than 180 days.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

(iii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

(iv) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(b) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

5. Cash and balances with central banks

	December 31,	
	2009	2008
	AED '000	AED '000
Cash in hand	**514,758**	454,043
Balances with central banks:		
Current accounts and other balances	**2,325,386**	910,067
Statutory deposits	**2,686,814**	2,425,276
Certificates of deposit	**14,650,000**	2,500,000
	20,176,958	6,289,386

The Bank is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash in hand and current accounts and other balances are not interest-bearing. Certificate of deposits are interest-bearing.

As of December 31, 2009, AED 4,366 million of the above balances was provided as collateral for Central Bank of the U.A.E. repos (Note 14).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

6. Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Demand	**1,479,036**	829,489
Overnight	**703,033**	603,151
Time	**6,559,124**	7,644,990
	8,741,193	9,077,630
Less: Allowance for impairment	**(480,137)**	-
	8,261,056	9,077,630

(b) The above represent deposits and balances due from:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Banks abroad	**6,341,866**	8,294,480
Banks in the U.A.E.	**2,399,327**	783,150
	8,741,193	9,077,630
Less: Allowance for impairment	**(480,137)**	-
	8,261,056	9,077,630

Deposits and balances due from banks include an amount of AED 6.60 million (2008: AED 582.20 million) being call margins held as collateral against repurchase agreements (Note 14).

(c) Allowance for impairment movement

	2009 AED '000	2008 AED '000
At January 1,	**-**	-
Charged during the year	**(460,283)**	-
Interest in suspense	**(19,854)**	-
At December 31,	**(480,137)**	-

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

7. Other financial assets

(a) The analysis of the Group's investments as of December 31, 2009 (classified in accordance with IFRS 9) is as follows:

	December 31, 2009 AED '000
Other financial assets measured at fair value	
(i) Investments measured at fair value through profit and loss (FVTPL)	
Debt securities	**306,516**
Equities	**114,443**
Mutual and other funds	**168,893**
	589,852
(ii) Investments measured at fair value through other comprehensive income (FVTOCI)	
Equities	**1,114,060**
Mutual and other funds	**507,605**
	1,621,665
Total other financial assets measured at fair value	**2,211,517**
Other financial assets measured at amortized cost	
Debt securities	**9,364,884**
Total other financial assets	**11,576,401**

The Group has opted for the early adoption of IFRS 9 which has resulted in a change to the Group's accounting policy for the classification and measurement of financial assets. This change in accounting policy has been applied retrospectively and, as permitted by IFRS 9, the Group has elected not to restate the comparative amounts, with the difference between the previous carrying amounts and the carrying amounts as at January 1, 2009 for impacted accounts, recognized in the opening retained earnings of the current financial year (Note 2).

(b) The analysis of the Group's investments as of December 31, 2008 (classified in accordance with IAS 39) is as follows:

	December 31, 2008 AED '000
Financial assets carried at fair value through profit and loss	
(i) Held for trading	
Debt securities	78,990
Discretionary managed fund	55,258
Equities	4,815
Other investments	17,092
	156,155

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

7. Other financial assets (continued)

(b) The analysis of the Group's investments as of December 31, 2008 (classified in accordance with IAS 39) is as follows: (continued)

(ii) Investments designated as at FVTPL	
Equities	63,621
Total financial assets carried at fair value through profit and loss	219,776
Non-trading investments	
(i) Available-for-sale	
Debt securities	1,505,444
Equities	1,561,844
Investment funds	578,298
Others	346,292
	3,991,878
(ii) Held-to-maturity (carried at amortized cost)	
Debt securities	9,348,553
Total non-trading investments	13,340,431
Total other financial assets	13,560,207

(c) The geographic analysis of investments is as follows:

	December 31,	
	2009	2008
	AED '000	AED '000
- within U.A.E.	**6,853,956**	7,941,453
- outside U.A.E.	**4,722,445**	5,618,754
	11,576,401	13,560,207

(d) The analysis of investments by industry sector is as follows:

	December 31,	
	2009	2008
	AED '000	AED '000
Government and Public Sector	**3,285,266**	3,674,918
Commercial and Business	**414,148**	441,045
Financial Institutions	**7,201,282**	8,498,230
Other	**675,705**	946,014
	11,576,401	13,560,207

(e) The fair value of other financial assets measured at amortized cost amounted to AED 7,664.93 million as of December 31, 2009 (2008: AED 7,733.05 million for debt securities held to maturity).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

7. Other financial assets (continued)

(f) The above investments include debt securities aggregating to AED 6,821.44 million (2008: AED 6,107.43) sold under repurchase agreement (repos) (Note 14)

(g) Other financial assets measured at FVTOCI are strategic equity investments and mutual funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI will provide a more meaningful presentation of its medium to long-term interest in its investment than fair valuing the interest through profit or loss.

During the year ended December 31, 2009, dividends received from financial assets measured at FVTOCI amounting to AED 57.445 million recognized as investment income in the consolidated income statement.

8. Loans and advances measured at amortized cost

(a) The analysis of the Group's loans and advances measured at amortized cost is as follows:

	December 31,	
	2009	2008
	AED '000	AED '000
Loans	**35,593,302**	41,023,640
Overdrafts	**6,227,057**	6,304,447
Credit Cards	**2,100,231**	1,964,967
Others	**185,107**	260,029
	44,105,697	49,553,083
Less: Allowance for impairment	**(1,984,870)**	(1,118,809)
	42,120,827	48,434,274

As mentioned in note 2 to the consolidated financial statements the Group has opted to early adopt IFRS 9 - Financial Instruments: Measurement and Recognition. The adoption of IFRS 9 did not result in any change with regards to the measurement of loans and advances which are carried at amortized cost prior and post adoption of the standard.

(b) The analysis of loans and advances measured at amortized cost by industry sector is as follows:

	December 31,	
	2009	2008
	AED '000	AED '000
Manufacturing	**3,782,983**	3,975,302
Construction	**4,790,278**	5,164,595
Trade	**6,674,039**	9,741,016
Transport and communication	**1,640,053**	2,328,397
Services	**4,798,771**	6,715,618
Financial institutions	**2,769,775**	3,417,312
Retail	**11,361,082**	12,165,643
Government/public sector	**8,209,706**	5,947,823
Others	**79,010**	97,377
	44,105,697	49,553,083
Less: Allowance for impairment	**(1,984,870)**	(1,118,809)
	42,120,827	48,434,274

Loans and advances include AED 1,972 million (2008: AED 1,153 million) of loans and advances that are past due but not impaired.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

8. **Loans and advances measured at amortized cost** (continued)

(c) In certain cases, the Group continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to consolidated income statement. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted. The value of loans and advances on which interest is not taken to income, including fully provided accounts, amounted to AED 3,614million at December 31, 2009 (2008: AED 364 million).

(d) The movement in the allowance for impairment of loans and advances during the year was as follows:

	2009	2008
	AED '000	AED '000
At January 1,	**1,118,809**	1,090,555
Impairment allowance for the year	**1,118,780**	191,696
Interest in suspense	**111,491**	50,418
Amounts written off during the year	**(92)**	(177,334)
Recoveries during the year	**(113,975)**	(36,526)
Collective impairment provisions no longer needed	**(250,143)**	-
At December 31,	**1,984,870**	1,118,809

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

9. Islamic financing and investment products measured at amortized cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortized cost is as follows:

	December 31, 2009	December 31, 2008
	AED '000	AED '000
Financing		
Murabaha	**2,074,625**	3,058,883
Ijara	**1,752,591**	1,909,519
	3,827,216	4,968,402
Investing		
Musharakah	**1,472,794**	1,433,576
Mudaraba	**64,514**	64,865
Wakala	**276,461**	-
	1,813,769	1,498,441
Total	**5,640,985**	6,466,843
Less: Unearned income	**(16,732)**	(17,008)
Allowance for impairment	**(14,964)**	(504)
	5,609,289	6,449,331

As mentioned in note 2 to the consolidated financial statements the Group has opted to early adopt IFRS 9 - Financial Instruments: Measurement and Recognition. The adoption of IFRS 9 did not result in any change with regards to the measurement of Islamic financing and investment products which are carried at amortized cost prior and post adoption of the standard.

(b) The analysis of Islamic financing and investment products measured at amortized cost by industry sector is as follows:

	December 31, 2009	December 31, 2008
	AED '000	AED '000
Government/public sector	**1,809,679**	1,931,700
Construction	**1,684,572**	1,755,332
Services	**1,078,853**	1,222,061
Financial institutions	**634,268**	468,978
Personal	**289,568**	433,153
Transport and communication	**84,107**	289,464
Trade	**13,832**	39,979
Others	**46,106**	326,176
	5,640,985	6,466,843
Less: Unearned income	**(16,732)**	(17,008)
Allowance for impairment	**(14,964)**	(504)
	5,609,289	6,449,331

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

9. Islamic financing and investment products measured at amortized cost (continued)

(c) Allowance for impairment movement

	2009	2008
	AED '000	AED '000
At January 1,	**504**	494
Charged during the year	**8,727**	-
Profit in suspense	**6,260**	10
Written off during the year	**(527)**	-
At December 31,	**14,964**	504

10. Interest receivable and other assets

	December 31,	
	2009	2008
	AED '000	AED '000
Interest receivable	**301,705**	345,446
Prepaid interest and expenses	**107,408**	99,048
Acceptances	**2,270,442**	1,896,615
Positive fair value of derivatives (Note 40)	**1,269,198**	2,710,007
Insurance related receivables	**971,733**	814,872
Credit Card interchange receivables	**32,164**	33,949
Taxes paid in advance	**12,578**	9,673
Split foreign exchange agreement	**5,304**	1,829,154
Others	**458,170**	492,772
	5,428,702	8,231,536

11. Investment properties

	2009	2008
	AED '000	AED '000
At fair value		
At January 1,	**724,237**	498,440
Additions during the year	**-**	73,330
Transfer to property and equipment (Note 12)	**(316,124)**	-
Change in fair value during the year	**(174,464)**	152,467
At December 31,	**233,649**	724,237

The fair value of investment properties for the subsidiaries Osool - A Finance Company (PJSC) (AED 3 million) and Oman Insurance Company (PSC) (AED 230.6 million) as of December 31, 2009 has been arrived at on the basis of a valuation carried out in April 2009 and in December 2009 respectively by independent valuers (Messrs Cluttons LLC and Messrs RERA Land Department). The valuation, which conforms to international valuation standards, was arrived at by the reference to market evidence of transaction prices for similar properties.

All of the Group's investment properties are held under freehold interests.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

12. Property and equipment

	Properties for own use	Property acquired in settlement of debts	Furniture, fixtures, equipment & vehicles	Improvements to freehold properties and others	Capital work-in-progress	Total
	AED '000	**AED '000**	**AED '000**	**AED '000**	**AED '000**	**AED '000**
Cost						
At December 31, 2007	165,097	21,727	207,071	166,803	92,543	653,241
Additions	2,179	2	52,539	33,937	93,265	181,922
Disposals/write-offs	(7,170)	-	(63,206)	(14,805)	-	(85,181)
Transfers	159,159	-	11,189	1,125	(171,473)	-
At December 31, 2008	319,265	21,729	207,593	187,060	14,335	749,982
Additions	5,106	231,892	142,826	133,241	49,913	562,978
Transfers from investment properties	316,124	-	-	-	-	316,124
Disposals/write-offs	(9,825)	(16,536)	(7,783)	(16,856)	-	(51,000)
Transfers	7,264	-	6,280	9,246	(22,790)	-
At December 31, 2009	**637,934**	**237,085**	**348,916**	**312,691**	**41,458**	**1,578,084**
Accumulated depreciation						
At December 31, 2007	84,821	-	116,167	68,592	-	269,580
Charge for the year	9,534	-	38,303	34,890	-	82,727
Disposals/write-offs	(4,925)	-	(62,104)	(12,216)	-	(79,245)
At December 31, 2008	89,430	-	92,366	91,266	-	273,062
Charge for the year	13,640	-	51,887	44,747	-	110,274
Disposals/write-offs	(3,534)	-	(7,404)	(9,376)	-	(20,314)
At December 31, 2009	**99,536**	**-**	**136,849**	**126,637**	**-**	**363,022**
Carrying amount						
At December 31, 2009	**538,398**	**237,085**	**212,067**	**186,054**	**41,458**	**1,215,062**
At December 31, 2008	229,835	21,729	115,227	95,794	14,335	476,920

At December 31, 2009, the fair value of properties acquired in settlement of debts was AED 234 million (2008: AED 277 million). Also, property acquired in settlement of debt includes a land with a book value of AED 226 million which is in the name of the Group Chief Executive Officer on trust and for the benefit of the Group.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

13. Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Time	**5,635,618**	10,527,107
Demand	**876,952**	1,326,096
Overnight	**459,098**	483,288
	6,971,668	12,336,491

(b) The above represent borrowings from:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Banks abroad	**4,802,634**	8,037,405
Banks in the U.A.E.	**2,169,034**	4,299,086
	6,971,668	12,336,491

Deposits and balances due to banks abroad include an amount of AED 1,836.5 million (USD 500 million) [2008: AED 1,836.5 million (USD 500 million)] being a 5 years loan obtained through a syndicate of banks maturing in July 2012. The loan carries a floating rate of interest which is fixed by reference to 3 months LIBOR.

14. Repurchase agreements with banks

Repo borrowing

Tenure	Due date	Interest rate	December 31, 2009 AED '000	December 31, 2008 AED '000
1 month	January 2010	0.5% - 1.0% per annum	**6,212,241***	-
1month	January 2010	3.75% per annum	**845,409**	-
1month	January 2010	3.96 % per annum	**799,634**	-
1 month	January 2010	Non-interest bearing	**209,938**	-
1month	January 2010	3.91% per annum	**65,015**	-
3 months	March 2010	0.66 % per annum	**89,955**	-
3 months	March 2010	2.11% per annum	**81,291**	-
5 years	October 2011	3 months USD Libor	**165,285**	183,650
6 months	January 2009	3% per annum	**-**	2,538,000*
6 months	January 2009	6 months USD Libor	**-**	1,151,149
6 months	February 2009	6 months USD Libor	**-**	1,257,084
			8,468,768	5,129,883

* Amounts represent repurchase agreements with the U.A.E. Central Bank.

Collateral given against these repo borrowing is disclosed in notes 5, 6(b) and 7(f)

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

15. Customers' deposits

(a) The analysis of customers' deposits is as follows:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Current and other accounts	**12,088,119**	11,492,582
Saving accounts	**1,660,804**	841,098
Time deposits	**37,047,845**	36,101,858
	50,796,768	48,435,538

(b) Analysis of economic activities:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Government and Public Sector	**9,358,599**	9,219,270
Commercial & Business	**25,929,204**	25,142,639
Personal	**12,524,344**	11,904,031
Financial Institutions	**1,995,406**	1,685,220
Others	**989,215**	484,378
	50,796,768	48,435,538

(c) December 31, 2008 balance includes an amount of AED 3,444 million received from the Ministry of Finance of the U.A.E. (AED 1,687 million matures in October 2011 and AED 1,757 million matures in November 2013) as part of the liquidity support made available to U.A.E. banks in view of the credit crisis.

During the year ended December 31, 2009, the Group opted to convert the customer deposits received from the Ministry of Finance in 2008 to Tier 2 qualifying loan ("Tier 2 loan"). The conversion process has been approved by the shareholders in the Extraordinary General Meeting held on March 15, 2009. Therefore, these customer deposits were reclassified to medium term loans (Note 19).

16. Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	December 31, 2009 AED '000	December 31, 2008 AED '000
Current and other accounts	**189,287**	139,554
Saving accounts	**8,958**	4,087
Time deposits	**2,662,774**	2,898,386
	2,861,019	3,042,027

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

17. Insurance and life assurance funds

	Outstanding claims	Unearned premium reserve	Additional reserve	Life assurance fund	2009 Total	2008 Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At January 1,	242,615	396,242	86,913	76,715	802,485	516,895
(Decrease)/increase	(3,609)	22,973	5,500	31,238	56,102	285,590
At December 31,	239,006	419,215	92,413	107,953	858,587	802,485

Unearned premium reserve is calculated as a percentage of annual premiums earned, net of reinsurance. Additional reserves are also made for the estimated excess of potential claims and claims incurred but not reported at the reporting date.

Life assurance fund is determined by an independent actuarial valuation of future policy benefits.

18. Interest payable and other liabilities

	December 31, 2009	December 31, 2008
	AED '000	AED '000
Interest payable	561,253	480,744
Negative fair value of derivatives (Note 40)	1,270,436	2,930,729
Acceptances	2,270,442	1,896,615
Insurance premium collected in advance	491,496	562,663
Accrued expenses	291,681	537,264
Income received in advance – discounted bills	66,560	321,156
Pay orders issued	118,310	253,670
Provision for end-of-service indemnity	138,055	128,662
Credit card related	39,567	35,062
Provision for taxation	13,743	11,107
Others	368,217	411,163
	5,629,760	7,568,835

Provision for employees' end of service indemnity is made for estimated amounts required to cover employees' end-of-service indemnity at the balance sheet date as per U.A.E. Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

19. Medium-term loans

	December 31,	
	2009	2008
	AED '000	AED '000
Tier 2 loan from the Ministry of Finance of the U.A.E.	**3,443,593**	-
Medium term floating rate notes	**3,734,706**	5,234,025
	7,178,299	5,234,025

(a) *Tier 2 loan from the Ministry of Finance of the U.A.E.*

The Group opted to convert customer deposits amounting to AED 3,444 million received from the Ministry of Finance in 2008 to Tier 2 qualifying loan ("Tier 2 loan"). The conversion process has been approved by the shareholders in the Extraordinary General Meeting held on March 15, 2009. The Tier 2 loan will mature in October 2011 and November 2013. Interest is paid every three months and calculated on the prevailing coupon rate on the United States Treasury benchmark 5 year note plus 120 basis points or 4%, which ever is higher.

(b) *Medium term floating rate notes*

The maturities of the bonds (FRN) issued under the programme are as follows:

		December 31,	
		2009	2008
Due date	Interest rate	**AED '000**	AED '000
February 27, 2009	3 months Libor + 0.55%	**-**	1,101,900
March 23, 2010	3 months Libor + 0.40%	**1,193,725**	1,193,725
April 6, 2011	3 months Libor + 0.38%	**1,101,900**	1,101,900
January 24, 2017	3 months Libor + 0.625%	**1,439,081**	1,836,500
		3,734,706	5,234,025

During 2004, the Bank established a Euro Medium Term Note (EMTN) programme for USD 750 million (AED 2,754.75 million) under fiscal agency agreement dated February 4, 2004. The EMTN programme was increased to USD 2,000 million (AED 7,346 million) under fiscal agency agreement dated March 21, 2006.

The USD 500 million (AED 1,836 million) tranche issued during January 2007 is a subordinated floating rate note (FRN) and qualifies for Tier 2 subordinated loan capital for the first 5 years till 2012 and thereafter it will be amortized at the rate of 20% per annum for the next five years until 2017 for capital adequacy calculations. However, this FRN is callable in 5 years (i.e. in 2012) if not redeemed on completion of 5 years, there is provision for step up in coupon rate of 0.5% for next 5 years. This subordinated FRN has been approved by U.A.E. Central Bank for recognition as Tier 2 capital. During the year ended December 31, 2009, the Group has bought back and redeemed USD 108.2 million (AED 397.42 million) of its outstanding subordinated debt due end of January 2017.

20. Long-term loans

These represent long-term loans provided by the Real Estate Committee of the U.A.E. to refinance real estate loans made by the Group to various U.A.E. citizens, which are included in loans and advances measured at amortized cost.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

21. Capital and reserves

(a) Paid up capital

During the year ended December 31, 2009, bonus share distribution of 1 share for each 10 shares on account of 2008, and a 10% cash dividend amounting to AED 146,386,992 were approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting.

As of December 31, 2009, 161,025,690 ordinary shares of AED 10 each (2008: 146,386,992 ordinary shares of AED 10 each) were issued and are fully paid up.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of U.A.E., 10% of the net income for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the U.A.E. this level is 50% of the issued share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Ordinary General Meeting.

(d) Investment revaluation reserve

Investment revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI. As of December 31, 2008 revaluation of available for sale securities was recorded under investment revaluation reserve.

22. Non-controlling interests

	2009	2008
	AED '000	AED '000
At January 1,	**617,706**	870,546
Effect of change in the accounting policy for financial instruments – recognition and measurement(IFRS 9)	**(15)**	-
At January 1 (restated),	**617,691**	870,546
Dividends paid	**(69,377)**	(35,972)
Comprehensive income for the year attributed to non-controlling interests	**25,969**	(216,446)
Reduction in non-controlling interests' capital	**-**	(422)
At December 31,	**574,283**	617,706

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

23. Contra accounts and commitments

	December 31, 2009	December 31, 2008
	AED '000	AED '000
(a) Contra accounts (memoranda)		
Guarantees	**41,226,839**	39,539,729
Letters of credit	**4,058,517**	7,346,914
	45,285,356	46,886,643
(b) Derivative financial instruments (Note 40)	**91,228,468**	132,743,826
Total contra account and commitments (a + b)	**136,513,824**	179,630,469

Outstanding granted but unutilised facilities as at December 31, 2009 amounted to AED 53,645 million (2008: AED 54,085 million), of which amounts committed were AED 5,778 million (2008: AED 4,725 million) and amounts un-committed were AED 47,866 million (2008: AED 49,360 million).

(c) Contra accounts – maturity profile

The maturity profile of the Group's contra accounts were as follows:

	2009					
	Within 3 months	**Over 3 to 6 months**	**Over 6 to 12 months**	**Over 1 to 5 years**	**Over 5 years**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Guarantees	**13,272,453**	**1,795,698**	**4,273,500**	**5,562,129**	**16,323,059**	**41,226,839**
Letters of credit	**2,166,930**	**958,078**	**652,943**	**280,434**	**132**	**4,058,517**
Total	**15,439,383**	**2,753,776**	**4,926,443**	**5,842,563**	**16,323,191**	**45,285,356**

	2008					
	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Guarantees	8,294,456	749,888	2,606,135	12,837,689	15,051,561	39,539,729
Letters of credit	1,966,181	3,314,422	1,760,398	301,666	4,247	7,346,914
Total	10,260,637	4,064,310	4,366,533	13,139,355	15,055,808	46,886,643

The analysis of commitments and contingencies by geographic region and industry sector is shown in Note 37.

(d) Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

	December 31, 2009	December 31, 2008
	AED '000	AED '000
Less than 1 year	**56,019**	49,271
1 to 5 years	**52,752**	58,459
Over 5 years	**152,038**	149,865
Total	**260,809**	257,595

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

24. Interest income

	Year ended December 31, 2009 AED '000	2008 AED '000
Loans and advances	**3,672,938**	3,120,795
Banks	**509,801**	801,002
Other financial assets	**509,809**	407,671
Central bank of U.A.E.	**114,770**	245,589
	4,807,318	4,575,057

25. Income from Islamic financing and investment products

	Year ended December 31, 2009 AED '000	2008 AED '000
Financing		
Murabaha	**136,740**	99,356
Ijara	**87,631**	62,687
Others	**37,038**	1,766
	261,409	163,809
Investing		
Musharaka	**58,455**	47,142
Wakala	**5,667**	4,571
Mudaraba	**2,561**	1,413
	66,683	53,126
	328,092	216,935

26. Interest expense

	Year ended December 31, 2009 AED '000	2008 AED '000
Customers' deposits	**2,053,406**	1,515,521
Deposits and balances due to central banks	**51,705**	23,072
Deposits and balances due to other banks	**514,383**	866,301
Medium term floating rate notes	**201,212**	227,807
	2,820,706	2,632,701

27. Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Sharia'a Supervisory Board.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

28. Net fee and commission income

	Year ended December 31,	
	2009	2008
	AED '000	AED '000
Fee and commission income		
Commission income	**647,252**	1,330,514
Brokerage and asset management	**24,059**	46,092
Insurance commission	**153,719**	160,388
Fees and charges on banking services	**511,207**	390,888
Credit Card related fee	**644,550**	538,009
Others	**142,894**	151,150
Total fee and commission income	**2,123,681**	2,617,041
Fee and commission expenses		
Commission expense	**177,172**	861,432
Brokerage and asset management	**314**	312
Insurance commission	**216,475**	206,908
Credit Card related expenses	**278,272**	278,005
Others	**17,932**	17,614
Total fee and commission expenses	**690,165**	1,364,271
Net fee and commission income	**1,433,516**	1,252,770

29. Net investment income/(loss)

	Year ended December 31,	
	2009	2008
	AED '000	AED '000
Net realized investment gain/(loss) from sale of investments held for trading	**44,926**	(123,736)
Fair value adjustments from investments held for trading/ FVTPL	**45,594**	(192,203)
Interest income	**10,404**	117,386
Dividends income from financial assets measured at FVTPL/investments held for trading	**351**	1,121
Net realized investment (loss)/ gain from sale of available for sale investments	**(55,178)**	34,393
Available for sale investments written off	**-**	(68,612)
Amortization of investments revaluation reserves that belong to reclassified investments	**-**	(20,226)
Dividends income from financial assets measured at FVTOCI/Available for sale investments	**57,445**	68,909
Impairment loss of available for sale investments	**-**	(35,012)
Recovery of written off investments	**4,501**	-
Other investment income	**98**	-
	108,141	(217,980)

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

30. Other income, net

	Year ended December 31,	
	2009	2008
	AED '000	AED '000
Fair value adjustments of investment property	**(174,464)**	152,467
Rental income from investment property	**42**	366
Foreign exchange gains, net	**308,344**	271,168
Insurance underwriting profit	**605,730**	424,680
Gain on sale of property and equipment	**214,689**	57,730
Rental income from properties	**6,583**	4,546
Fair value adjustment – derivatives	**95,692**	(159,938)
Gain from redemption of medium term loans (Note 19 (b))	**151,871**	-
Others	**108,373**	114,354
	1,316,860	865,373

31. General and administrative expenses

	Year ended December 31,	
	2009	2008
	AED '000	AED '000
Salaries and employees related expenses	**978,262**	1,094,258
Depreciation on property and equipment	**110,274**	82,727
Other general and administration expenses	**681,922**	696,977
	1,770,458	1,873,962

Pension and national insurance contribution for U.A.E. citizens are made by the Group in accordance with Fedral Law No. 7 of 1999.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

32. Allowances for impairment

	2009			
	Retail	**Corporate and others**	**Collective impairment**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Allowance for impaired loans and advances	**19,738**	**1,099,042**	**-**	**1,118,780**
Allowance for impaired loans due from banks	**-**	**453,163**	**-**	**453,163**
Impairment of other financial assets measured at amortized cost	**-**	**65,745**	**-**	**65,745**
Allowance for Islamic assets	**-**	**8,727**	**-**	**8,727**
Allowance of other debtors	**-**	**58,625**	**-**	**58,625**
Write-off of impaired loans and advances	**856,709**	**92**	**-**	**856,801**
Collective impairment allowance no longer required	**-**	**-**	**(250,143)**	**(250,143)**
Recovery of loans previously written off	**(83,258)**	**(113,975)**	**-**	**(197,233)**
	793,189	**1,571,419**	**(250,143)**	**2,114,465**

	2008			
	Retail	Corporate and others	Collective impairment	Total
	AED'000	AED'000	AED'000	AED'000
Allowance for impaired loans and advances	9,932	74,500	107,264	191,696
Allowance for other debtors	-	21,229	-	21,229
Write-off of impaired loans and advances	287,134	115	-	287,249
Recovery of loans previously written off	(104,351)	(33,461)	-	(137,812)
	192,715	62,383	107,264	362,362

33. Earnings per share

Earnings per share are calculated by dividing the profit for the year by the number of shares outstanding during the year as follows:

	Year ended December 31,	
	2009	2008
Profit for the year (AED'000) (Attributed to shareholders of the parent)	**1,000,464**	1,642,830
Number of ordinary shares outstanding	**161,025,690**	161,025,690
Earnings per share (AED)	**6.21**	10.20
Diluted earnings per share (AED)	**6.21**	10.20

The number of ordinary shares outstanding as of December 31, 2008 has been adjusted to reflect the bonus shares issued during 2009 [Note 21(a)].

34. Proposed Dividend

The board of directors' has proposed 15% cash dividend and 5% bonus share at their meeting held on february 4, 2010.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

35. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank certificates of deposits, balances with banks and money market placements which are maturing within three months from the date of the deposit or placement, as follows:

	December 31,	
	2009	2008
	AED '000	AED '000
Cash and balances with central banks		
Cash in hand	**514,758**	454,043
Balances with central banks:		
Current accounts and other balances	**2,325,386**	910,067
Certificate of deposit	**14,650,000**	2,500,000
Deposits and balances due from banks maturing within 3 months	**6,001,931**	4,406,708
	23,492,075	8,270,818

36. Related party transactions

a) Certain "related parties" (such as, directors and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

b) The Group is controlled by Al Ghurair Family members who own 82.27% of the share capital. The remaining shares are widely held.

c) Related party balances included in the balance sheet are as follows:

	December 31,	
	2009	2008
	AED '000	AED '000
Loans and advances measured at amortized cost	**1,903,602**	1,404,911
Customers' deposits	**1,497,794**	1,958,554
Letters of credit and guarantees	**1,952,917**	2,053,701
Other financial assets measured at FVTOCI	**118,430**	-
Non-trading investments – Available for sale	**-**	125,150
Investments revaluation reserve	**(22,970)**	(16,250)

d) Profit for the year includes related party transactions as follows:

	Year ended December 31,	
	2009	2008
	AED '000	AED '000
Interest income	**118,054**	115,571
Interest expense	**37,490**	43,213
Other income, net	**131,845**	112,567

e) Compensation of key management comprises salaries, bonuses and other benefits amounting in total to AED 25.472 million (2008: AED 108.813 million).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

37. Concentrations of assets, liabilities and off balance sheet items

(a) Geographic regions

	December 31, 2009			December 31, 2008		
	Assets	Liabilities	Off Balance Sheet items	Assets	Liabilities	Off Balance Sheet items
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
U.A.E.	**76,252,797**	**67,828,030**	**34,649,349**	69,386,824	68,654,802	36,242,191
Other Middle East Countries	**11,495,444**	**6,027,009**	**2,577,749**	12,221,116	6,259,459	2,304,797
O.E.C.D.	**4,971,356**	**6,055,010**	**4,363,495**	4,707,326	6,439,318	5,508,881
Others	**1,902,347**	**2,864,403**	**3,694,763**	6,928,255	1,207,543	2,830,774
	94,621,944	**82,774,452**	**45,285,356**	93,243,521	82,561,122	46,886,643

(b) Industry Sector

	December 31, 2009			December 31, 2008		
	Assets	Liabilities	Off Balance Sheet items	Assets	Liabilities	Off Balance Sheet items
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Government and Public Sector	**13,271,206**	**12,930,953**	**58**	11,473,467	9,274,010	66,940
Commercial & Business	**24,656,867**	**31,261,574**	**29,014,444**	34,261,439	30,691,740	33,186,412
Personal	**11,339,652**	**13,031,887**	**19,483**	12,317,720	12,306,124	21,159
Financial Institutions	**40,509,276**	**23,573,205**	**15,267,627**	26,026,025	25,376,803	13,612,069
Others	**4,844,943**	**1,976,833**	**983,744**	9,164,870	4,912,445	63
	94,621,944	**82,774,452**	**45,285,356**	93,243,521	82,561,122	46,886,643

38. Segmental information

The Group has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed.

Reportable segments

In prior years, segment information reported externally was analysed on the basis of the types of products supplied and services provided by the Group's operating divisions (i.e. Retail, Corporate, Financial institutions, Islamic Banking, Treasury and Investment Banking, Insurance and Head office and others). In the current year, Operating Segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

38. Segmental information (continued)

Reportable segments (continued)

The Group's reportable segments under IFRS 8 are therefore as follows:

1. The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the U.A.E. Trade finance, contracting finance, project finance, investment banking, corporate advisory, cash management, wealth management, and SME & private banking are the major products and / or business lines making up this segment.

2. The **Domestic Retail** segment includes products and services offered to individuals or small businesses within U.A.E. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, auto loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking and wealth management services.

3. The **Treasury & Capital Markets** segment consists of customer flow business and proprietary business. Customer flow business includes transactions for Foreign Exchange, Derivatives, Margin FX, Futures, Hedging, Investment Products, Domestic Equities (brokerage) and Asset Management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

4. The **International Banking** segment consists of Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection, risk participations.

5. All Islamic banking products offered to customers are included under the **Islamic Banking** segment. These products are Ijara Home Finance, Mudarabah Deposit, Wadiya, Mudarah savings account, Musharaka finance, Murabaha commodity finance, Ijara Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit & Sukuk Advisory.

6. The Insurance subsidiary, Oman Insurance Company (PSC) – comprises the **Insurance** segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

7. The **Head office** consists of certain investments and assets held centrally due to their strategic significance to the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and the CEO and Group Executive Board rely primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis.

Revenue reported below represents revenue generated from external customers. All inter-segment income in the year was eliminated.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

38. Segmental information *(continued)*

Reportable segments (continued)

	2009							
	Domestic Corporate	Domestic Retail	Treasury & Capital Markets	International Banking	Islamic Banking	Insurance	Head Office	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	680,398	1,026,899	(119,428)	213,403	125,457	26,794	150,021	2,103,544
Other income	575,744	597,391	440,021	275,294	26,124	446,015	497,932	2,858,521
Total operating income	1,256,142	1,624,290	320,593	488,697	151,581	472,809	647,953	4,962,065
General and administrative expenses								(1,770,458)
Allowances for impairment								(2,114,465)
Profit before taxes								1,077,142
Overseas income tax expenses								(12,603)
Net income for the year								1,064,539
Attributed to:								
Shareholders of the parent								1,000,464
Non-controlling interests								64,075
								1,064,539
Segment Assets	24,985,894	10,480,184	29,959,280	13,072,782	6,368,094	3,609,033	6,146,677	94,621,944
Segment Liabilities	36,262,089	10,367,181	21,954,500	6,554,300	2,916,137	2,073,545	2,646,700	82,774,452

	2008							
	Domestic Corporate	Domestic Retail	Treasury & Capital Markets	International Banking	Islamic Banking	Insurance	Head Office	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	570,958	982,240	(90,920)	270,056	53,070	17,138	185,970	1,988,512
Other income	441,922	476,002	211,434	275,581	48,327	621,496	(79,336)	1,995,426
Total operating income	1,012,880	1,458,242	120,514	545,637	101,397	638,634	106,634	3,983,938
General and administrative expenses								(1,873,962)
Allowances for impairment								(362,362)
Profit before taxes								1,747,614
Overseas income tax expenses								(15,545)
Net income for the year								1,732,069
Attributed to:								
Shareholders of the parent								1,642,830
Non-controlling interests								89,239
								1,732,069
Segment Assets	28,731,521	12,009,841	17,167,233	15,768,447	6,892,383	3,764,204	8,909,892	93,243,521
Segment Liabilities	34,962,300	9,464,000	23,654,225	5,298,900	6,416,494	2,360,016	405,187	82,561,122

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

38. Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas – U.A.E. (country of domicile), Other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D., (USA and UK) and other countries (India and Hong Kong)

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income external customers *		Non-current assets**	
	December 31,		December 31,	
	2009	2008	**2009**	2008
	AED'000	AED'000	**AED'000**	AED'000
U.A.E.	**4,644,281**	3,696,878	**1,123,684**	1,175,354
Other Middle East countries	**202,665**	167,185	**320,928**	21,436
O.E.C.D.	**86,980**	89,050	**3,081**	2,750
Other countries	**28,139**	30,825	**1,018**	1,617
	4,962,065	3,983,938	**1,448,711**	1,201,157

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets excluding financial instruments, deferred tax assets (if any), and assets arising from insurance contracts.

Revenue from major products and services

Revenues from major products and services are disclosed in notes 24, 25 and 28 to the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

39. Classification of financial assets and liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2009:

	FVTPL	FVTOCI	Amortized cost	Carrying amount
	AED'000	AED'000	AED'000	AED'000
Cash and balances with central banks	-	-	20,176,958	20,176,958
Deposits and balances due from banks	-	-	8,261,056	8,261,056
Other financial assets measured at fair value	589,852	1,621,665	-	2,211,517
Loans and advances measured at amortized cost	-	-	42,120,827	42,120,827
Islamic financing and investment products measured at amortized cost	-	-	5,609,289	5,609,289
Other financial assets measured at amortized cost	-	-	9,364,884	9,364,884
Interest receivable and other assets	1,269,198	-	4,039,518	5,308,716
Total	**1,859,050**	**1,621,665**	**89,572,532**	**93,053,247**
Deposits and balances due to banks	-	-	6,971,668	6,971,668
Repurchase agreements with banks	-	-	8,468,768	8,468,768
Customers' deposits	-	-	50,796,768	50,796,768
Islamic customers' deposits	-	-	2,861,019	2,861,019
Insurance and life assurance funds	-	-	858,587	858,587
Interest payable and other liabilities	1,270,436	-	3,649,470	4,919,906
Medium-term loans	-	-	7,178,299	7,178,299
Long-term loans	-	-	9,583	9,583
Total	**1,270,436**	**-**	**80,794,162**	**82,064,598**

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2008:

	At fair value through profit & loss	Available-for-sale	Loans and advances	Held to maturity	Other amortized cost	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with central banks	-	-	-	-	6,289,386	6,289,386
Deposits and balances due from banks	-	-	-	-	9,077,630	9,077,630
Financial assets carried at FVTPL	219,776	-	-	-	-	219,776
Loans and advances measured at amortized cost	-	-	48,434,274	-	-	48,434,274
Islamic financing and investment products measured at amortized cost	-	-	6,449,331	-	-	6,449,331
Non-trading investments	-	3,991,878	-	9,348,553	-	13,340,431
Interest receivable and other assets	2,710,007	-	-	-	5,412,808	8,122,815
Total	2,929,783	3,991,878	54,883,605	9,348,553	20,779,824	91,933,643
Deposits and balances due to banks	-	-	-	-	12,336,491	12,336,491
Repurchase agreements with banks	-	-	-	-	5,129,883	5,129,883
Customers' deposits	-	-	-	-	48,435,538	48,435,538
Islamic customers' deposits	-	-	-	-	3,042,027	3,042,027
Insurance and life assurance funds	-	-	-	-	802,485	802,485
Interest payable and other liabilities	2,930,729	-	-	-	3,614,518	6,545,247
Medium-term loans	-	-	-	-	5,234,025	5,234,025
Long-term loans	-	-	-	-	11,838	11,838
Total	2,930,729	-	-	-	78,606,805	81,537,534

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

39. Classification of financial assets and liabilities (continued)

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application, December 31, 2009.

	Original measurement Category IAS39	New measurement Category IFRS 9	Original carrying amount	New carrying amount
			AED'000	AED'000
Cash and balances with central banks	Other amortized cost	Financial assets at amortized cost	20,176,958	20,176,958
Deposits and balances due from banks	Other amortized cost	Financial assets at amortized cost	8,261,056	8,261,056
Financial assets carried at FVTPL				
- Held for trading:				
Debt securities	Financial assets at FVTPL	Financial assets at FVTPL	265,885	265,885
Mutual and other funds	Financial assets at FVTPL	Financial assets at FVTOCI	49,757	49,757
- Investments designated as at FVTPL:				
Equities	Financial assets at FVTPL	Financial assets at FVTPL	78,196	78,196
Loans and advances, net	Loans and advance	Financial assets at amortized cost	42,120,827	42,120,827
Islamic financing and investment products	Loans and advance	Financial assets at amortized cost	5,609,289	5,609,289
Non-trading investments				
- Available for sale:				
Debt securities	Available for sale investments	Financial assets at amortized cost	1,745,590	1,893,709
Debt securities	Available for sale investments	Financial assets at FVTPL	60,408	40,631
Equities	Available for sale investments	Financial assets at FVTPL	36,247	36,247
Equities	Available for sale investments	Financial assets at FVTOCI	1,114,060	1,114,060
Mutual and other funds	Available for sale investments	Financial assets at FVTPL	168,893	168,893
Mutual and other funds	Available for sale investments	Financial assets at FVTOCI	457,848	457,848
- Held to maturity:				
Debt securities	Held to maturity	Financial assets at amortized cost	7,378,236	7,471,175
Interest receivable and other assets				
Interest and other assets	Other amortized cost	Financial assets at amortized cost	4,039,518	4,039,518
Positive fair value of derivatives	Financial assets at FVTPL	Financial assets at FVTPL	1,269,198	1,269,198

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

40. Derivatives

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are marked to market daily.

Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Caps are options that pay an amount of interest on an agreed-upon amount of notional principal whenever the market index is above the cap contract's index rate.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

40. Derivatives (continued)

Statement of derivatives as at December 31, 2009

Off-Balance Sheet Financial Instruments	Positive fair value	Negative fair value	Notional amount	Notional amount by term of maturity				
				Up to 3 months	3 – 6 months	6 - 12 months	1 year to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for Trading								
Forward foreign exchange contract	301,645	274,379	44,372,812	21,356,406	9,606,573	8,753,200	4,656,633	-
Foreign exchange options (bought)	-	111,307	7,907,106	5,478,771	1,905,675	489,675	32,985	-
Foreign exchange options (sold)	111,390	-	8,640,869	6,164,728	1,953,480	489,676	32,985	-
Interest rate swaps	836,453	843,995	29,528,543	265,182	1,954,036	3,941,466	20,589,736	2,778,123
Cap bought	-	-	20,900	-	20,900	-	-	-
Cap sold	-	-	20,900	-	20,900	-	-	-
Credit default swaps	887	1,196	32,614	-	-	-	32,614	-
Equity derivatives	13,738	34,474	253,218	-	6,349	116,782	130,087	-
Futures contracts purchased (Customer)	313	-	78,758	77,086	1,672	-	-	-
Futures contracts sold (Customer)	-	4,772	146,995	146,995	-	-	-	-
Futures contracts sold (Bank)	-	313	78,758	77,086	1,672	-	-	-
Futures contracts purchased (Bank)	4,772	-	146,995	146,995	-	-	-	-
	1,269,198	**1,270,436**	**91,228,468**	**33,713,249**	**15,471,257**	**13,790,799**	**25,475,040**	**2,778,123**

Statement of derivatives as at December 31, 2008

Off-Balance Sheet Financial Instruments	Positive fair value	Negative fair value	Notional amount	Notional amount by term of maturity				
				Up to 3 months	3 – 6 months	6 - 12 months	1 year to 5 years	Over 5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for Trading								
Forward foreign exchange contract	922,961	918,985	48,093,534	23,596,051	11,541,882	9,050,102	3,905,499	-
Foreign exchange options (bought)	-	1,033,694	26,644,695	5,647,203	6,826,833	13,692,698	477,961	-
Foreign exchange options (sold)	902,063	-	38,379,114	17,381,622	6,826,833	13,692,698	477,961	-
Interest rate swaps	830,665	934,970	18,491,898	409,485	25,438	661,619	13,571,756	3,823,600
Cap bought	-	1	62,700	-	-	-	62,700	-
Cap sold	1	-	62,700	-	-	-	62,700	-
Credit default swaps	10,322	8,703	230,884	-	-	18,365	212,519	-
Equity derivatives	17,880	8,261	184,875	13,100	1,095	17,884	152,796	-
Futures contracts purchased (Customer)	-	14,711	79,534	79,534	-	-	-	-
Futures contracts sold (Customer)	11,404	-	217,179	126,937	-	90,242	-	-
Futures contracts sold (Bank)	14,711	-	79,534	79,534	-	-	-	-
Futures contracts purchased (Bank)	-	11,404	217,179	126,937	-	90,242	-	-
	2,710,007	2,930,729	132,743,826	47,460,403	25,222,081	37,313,850	18,923,892	3,823,600

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

41. Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Group as a whole. The parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the U.A.E. adopted Basel II capital regime in November 2009. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 11% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them, rising to 12% in June 2010.

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

- Tier 1 capital, which includes paid-up share capital, retained earnings, cumulative translation adjustment and non-controlling interests in the equity of subsidiaries less than wholly owned after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of RWA), qualifying subordinated liabilities and the element of the investment revaluation reserve (upto a maximum of 45% of the excess of market value over the net book value) relating to unrealised gains on investments classified as other financial assets measured at FVTOCI or available-for-sale.
- Deductions from the total of tier 1 capital and tier 2 capital must be made for investments in the insurance subsidiary to prevent the multiple use of the same capital resources in different parts of the Group; however the Regulator may allow use of excess capital (over regulatory limits) invested.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The tier 1 capital must be a minimum of 7% of RWA and Tier 2 Capital cannot exceed 67% of Tier 1 Capital.

The Group's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group issued in the year ended December 31, 2007 bonds which have been approved by the U.A.E. Central bank to be treated as tier 2 capital. In addition, the U.A.E. Ministry of Finance has provided long term loans in 2008 which are also used as LT-2 capital.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the year.

The Group's regulatory capital position at December 31, 2009 was as follows:

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

41. Capital management (continued)

Regulatory capital (continued)

	December 31,	
	2009	2008
	AED '000	AED '000
Tier 1 capital		
Paid up capital	**1,610,257**	1,463,870
Statutory and legal reserve	**805,129**	740,734
Cumulative translation adjustment	**(25,018)**	(33,932)
General Reserve	**312,000**	312,000
Retained earnings	**8,850,576**	8,231,655
Non-controlling interest	**15,032**	14,434
Total	**11,567,976**	10,728,761
Tier 2 capital		
Allowance for collective impairment	**512,637**	762,780
Cumulative changes in fair value	**(279,735)**	(649,634)
Qualifying subordinated liabilities	**4,882,675**	1,836,500
Total	**5,115,577**	1,949,646
Deduction from capital	**(31,825)**	(31,825)
Total capital base	**16,651,728**	12,646,582
Risk-weighted assets		
Credit Risk	**77,086,127**	87,505,861
Market Risk	**441,050**	1,855,294
Operational Risk	**4,980,150**	4,099,238
Total risk-weighted assets	**82,507,327**	93,460,393
Risk asset ratio	**20.18%**	13.53%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management

The Group has set up a strong risk management infrastructure supported by adoption of the best practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit Risk Management
- Operational Risk Management
- Market Risk Management
- Liquidity Risk Management

The Risk Committee, Assets and Liabilities Committee (ALCO) and Investment Committee work under the mandate of the Board of Directors (BOD) to set up risk limits and manage the overall risk in the Group. These committees approve risk management policies of the Group developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Group. In addition to setting the credit policies of the Group, the Risk Committee also establishes industry caps, approves policy exceptions and requests periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. This Group is responsible for developing credit, market and operational risk policies. Experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

The Portfolio Management and Risk Analytic Unit within Risk Management Group is responsible for developing, validating and revalidating financial risk models for risk ratings and scoring models, including calculating and recalibration of Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD"). During the year, the unit provided strong support in terms of Stress testing and Forecasting, under various scenarios, for the quality challenging economic environment on portfolio quality, in terms of PD, LGD & EAD.

The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non–performing assets. As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing to its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific industries and/or due to global risk events and their implications on the Group's client base, and (ii) determine portfolio direction and resource allocation accordingly.

The Risk Management Group of the Group overseas credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

Credit Risk Management

Credit risk is the potential for financial loss arising from a borrower's or counterparty's inability to meet its obligations.

All credit policies are reviewed and approved by the Group's Risk Committee.

Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk.
The Group further limits risk through diversification of its assets by geography and industry sectors.

Wholesale credit risk management

The Wholesale Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. Such approvals are carried out in accordance with the Group's credit policy as set out in the Wholesale Credit Policy Manual. Periodic policy revisions and updates are posted as Policy Bulletins.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Credit Risk Management (continued)

Wholesale credit risk management (continued)

All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head inline with the Wholesale Credit Policy, and approved by the Group's Chief Executive Officer (the"CEO"). At least two signatures are required to approve any credit application. Depending on factors such as the nature of the applicant, magnitude of credit, its risk rating, the client type or a specific policy issue, a third concurring signature may sometimes be required, as defined in the Credit Policy Manual.

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where specialized industry knowledge is required.

Limit setting is based on a combination of factors, including a detailed evaluation of each customer's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support).

Credit and Marketing functions are segregated. Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports to Operations & Technology Group.

The Group has established limits for managing transferability and convertibility, together defined as cross-border limits. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on each country's financial strength and stability, using a set of metrics such as external debt, overall fiscal position, exports, imports, foreign exchange reserves and external debt service ratio. These limits are then applied to all international transaction flows where there is a risk of default represented by convertibility and/or transferability restrictions.

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Group's Risk Committee. The evaluation of a customer's creditworthiness is determined on the basis of statistically validated scoring models and policies.

All approval authorities are delegated by the Risk Committee or by the Chief Executive Officer (the "CEO") acting on behalf of the Risk Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

Credit review procedures

Specialists within the Audit, Review and Compliance group undertake regular reviews of the portfolio. In the wholesale portfolio this involves sampling of assets, but in retail the focus is on testing the Risk Management Process. The specialist auditors subject the group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and group internal policies in order to assist in the early identification of accrual and potential performance problems, they validate the risk ratings of those commercial and institutional clients sampled and ensure approved credit policies, guidelines and operating procedures across the Group are implemented or highlight identified gaps in their reports.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Credit Risk Management (continued)

Loan classification

All commercial and institutional loan facilities of the Group are assigned one of twenty five risk ratings. Non-classified obligors are those rated from 1 to 22. Obligors at the higher risk end rated 21 and 22 are categorized as "Watch-List". Classified exposures fall into 4 categories representing escalating degrees of severity. Assets rated 23 and 24 are categorized as "Specially Mentioned" and 25 are categorized as "Substandard". Doubtful and Loss rated credits are maintained in separate categories, outside the risk rating system. Split classifications may be used when a facility is partially collateralized, where the Loss Given Default ("LGD") would be different for the collateralized portion of the credit. The Group's internal rating system, which has been developed using historical loss data and customer behavioural scores, is also continually updated and strengthened in order to provide a statistically validated underpinning to customer ratings consistent with Basel II Internal Ratings-Based (IRB) guidelines.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to consolidated income statement. Once a loan is designated as non-accrual, all previously accrued but uncollected interest is reversed and charged against interest income. Interest accruals are no longer recorded as income, and the amortization into income of deferred loan fees ceases. Collections subsequent to a loan being placed on non-accrual status are applied on a cash basis. Specific allowance for impairment of classified assets is made based on recoverability of exposure and the risk ratings of the assets.

Retail loans are written off at a maximum of 180 days past their due date, based on the characteristics of the underlying product. The written off amount includes the unpaid interest accrued to the advance till the date of write off and the principal outstanding. Interest accrual to retail advances stop on the date of write off.

Impaired loans and securities

Impaired loans and securities are loans and securities 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 loans and securities agreements. These loans are graded Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits.

Past due but not impaired loans and securities

Past due but not impaired loans and securities are those loans and securities where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Allowances for impairment

The Group establishes an allowance for impairment losses 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 impairment allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

The Group also complies with International Accounting Standards 39 (IAS 39) and International Financial Reporting Standards 9 (IFRS 9), in accordance with which it assesses the need for any impairment losses on its loans portfolio by calculating the net present value using the original effective interest rate of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available. As required by Central Bank of the U.A.E. guidelines, the Group takes the higher of the loan loss provisions required under IAS 39, IFRS 9 and Central Bank regulations.

Write-off policy

The Group writes off a loan or security (and any related allowances for impairment losses) when the Group Credit determines that the loans or securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status. Write-offs are only generally allowed after 3 years from the date of which the asset has been classified as "Loss" or has been charged off.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Credit Risk Management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Other financial assets	
	2009	2008	**2009**	2008	**2009**	2008
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Impaired						
Doubtful	**480,137**	-	**3,597,467**	34,171	**67,258**	-
Loss	**-**	-	**16,620**	134,629	**-**	-
Gross amount	**480,137**	-	**3,614,087**	168,800	**67,258**	-
Interest suspended	**(19,854)**	-	**(172,764)**	(76,228)	**-**	-
Specific allowance for impairment	**(460,283)**	-	**(1,299,470)**	(279,801)	**-**	-
	-	-	**2,141,853**	(187,229)	**67,258**	-
Past due but not impaired						
Past due by less than 90 days	**-**	-	**533,267**	330,157	**-**	-
Past due beyond 90 days	**130,579**	-	**642,932**	195,370	**-**	-
Past due retail loans beyond 30 days	**-**	-	**795,611**	627,100	**-**	-
	130,579	-	**1,971,810**	1,152,627	**-**	-
Neither past due nor impaired						
Gross amount	**8,130,477**	9,077,630	**38,519,799**	48,231,656	**9,297,626**	9,348,553
Collective allowance for impairment	**-**	-	**(512,637)**	(762,780)	**-**	-
	8,130,477	9,077,630	**38,007,162**	47,468,876	**9,297,626**	9,348,553
Carrying amount	**8,261,056**	9,077,630	**42,120,825**	48,434,274	**9,364,884**	9,348,553

The credit quality of the portfolio of loans and advances that were neither past due nor impaired as at December 31, 2009 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

	December 31,	
	2009	2008
	AED '000	AED '000
Grades:		
Grade 1 – Low risk	**6,064,507**	18,813,766
Grade 2 – Satisfactory Risk	**22,570,218**	22,885,499
Grade 3 – Fair Risk	**5,031,103**	4,788,117
Grade 4 – Watch List	**2,893,337**	1,563,547
Grade 5 – Substandard but not impaired	**1,960,634**	180,727
Total	**38,519,799**	48,231,656

Collateral against loans and advances to customers is generally held in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2009 or 2008.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Credit Risk Management (continued)

The table below details the fair value of the collateral as at the date of granting the loan except for the fair value of debt and equity securities collaterals which are updated regularly for fair value and at the reporting date:

	Loans and advances		Due from banks	
	2009	2008	**2009**	2008
	AED'000	AED'000	**AED'000**	AED'000
Against individually impaired advances:				
Property	**1,404,008**	410,800	-	-
Equities	**874,613**	-	-	-
Cash	**19,526**	9,148	-	-
Against loans and advances not impaired:				
Property	**6,640,683**	7,367,288	-	-
Equities	**2,138,390**	2,937,610	-	-
Cash	**3,088,790**	2,626,560	**194,406**	268,076
Others	**2,862,405**	2,006,453	-	-
Total	**17,028,415**	15,357,859	**194,406**	268,076

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

2009	**U.A.E.**	**Middle East countries**	**O.E.C.D.**	**Other countries**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Impaired loans and advances	**678,689**	**2,908,952**	**26,446**	**-**	**3,614,087**
Impairment allowance for credit losses inclusive of interest in suspense	**167,405**	**1,290,478**	**14,347**	**-**	**1,472,230**

2008	U.A.E.	Middle East countries	O.E.C.D.	Other countries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired loans and advances	91,839	76,786	175	-	168,800
Impairment allowance for credit losses inclusive of interest in suspense	246,847	109,007	175	-	356,029

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events.

Operational risk is inherent in each of the Group's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, employee misdeeds, or non-compliance to contract by vendors. These events could result in financial losses and other damage to the Group, including reputational harm.

To monitor and control operational risk, the Group maintains a system of comprehensive policies, procedures and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in relation to the Group's financial strength, business characteristics, competitive environment and regulatory environment of the markets in which the Group operates. Notwithstanding these control measures, the Group incurs operational losses.

The Group has established an independent Operational Risk Function under the Risk Management Group; this function has designed and implemented a detailed Group level Operational Risk Policy, which has since been approved by the Risk Management Committee.

The Group's operational risk framework is supported by a state of the art operational risk software tool customised to meet the Group's specific framework requirements. This helps integrate the individual components of the operational risk management framework into a unified, web-based tool and enhances the capture, reporting and analysis of operational risk data. For purposes of identification, monitoring, reporting and analysis, the Group categorizes operational risk events in line with standard Basel II risk event types.

Risk identification is the recognition of the operational risk events that risk owners and management believe may give rise to operational losses. Post implementation of the operational risk software, the management has required all businesses to utilize the Group's Standard Risk Control Self-Assessment process and supporting architecture as a dynamic risk management tool. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and capture the view of the risk owner as to the degree to which it maintains appropriate controls. Action plans are expected to be developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Operational Risk Monitoring

The Group has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis is performed at Group level, Business level and at each product, entity and risk type level, along with capture of loss event data being the experience of the Group in relation to actualization of operational risk events. The data reported enables the Group to back-test against self-assessment results.

Market Risk Management

Market Risk is the risk that Group's positions will be adversely affected by changes in the levels or volatilities of market factors such as interest rates, currency rates, equity prices, commodity prices and credit spreads. The Market Risk Management Group is independent of the business. The Head of Market Risk reports to the Head of Risk Management.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function addresses risks arising from trading activities. Interest risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO).

Trading risks are concentrated in Treasury and Capital Markets (TCM) and managed by a solid framework of market risk limits that reflect the Group's market risk appetite. Limits are placed on position sizes as well as on factor sensitivities. Positions are monitored daily against the established limits and position monitoring reports are circulated to the Market Risk Management team and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Policy and the concerned trading desk's limits package.

In addition to a Market Risk Limits Package, each trading desk has a Permitted Product List which is a list of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from the TCM Product Policy Committee which assesses the risks associated with the product and verifies that they can be controlled effectively prior to approving the product.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Operational Risk Management (continued)

Market Risk Management (continued)

One of the techniques used to measure risk is Value at Risk (VaR). VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in market factors. The management calculates one-day VaR at a 99% confidence interval using Monte Carlo simulations. This means that under normal market conditions, on ninety-nine days in a hundred, the decline in the value of a portfolio will be less than the estimated VaR number. Only on one day in a hundred will it exceed this number. The model is back-tested regularly to ensure that actual losses are in fact below the potential losses estimated by VaR.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analyzing their effect on the Group's trading positions.

In 2009, VaR was calculated daily and as of December 31, 2009 the 99% VaR was USD 0.469 million (2008: USD 4.540 million).

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analyzed and monitored by Assets and Liabilities Committee ("ALCO"). Since most of the Group's assets and liabilities are floating rate, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on profit over a 12 months period as at December 31, 2009 would have been an increase in profit by 0.42% (in case of decrease of interest rate) and would have been an increase in profit by 0.15% (in case of increase of interest rate) [2008: -0.03% and +0.32%] respectively.

The effective interest rate on bank placements and certificates of deposits with central bank was 1.57% (2008: 3.28%), on loans and advances 6.93 % (2008: 6.26%), on customer deposits 3.11% (2008: 2.53%) and on bank borrowings 2.39% (2008: 3.59%).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Market Risk Management (continued)

Interest Rate Risk Management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Interest Rate Sensitivity Gap	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest sensitive	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with central banks	8,049,726	3,700,000	7,550,000	100,603	-	776,629	20,176,958
Deposits and balances due from banks, net	5,594,144	595,886	1, 518,975	501,593	29,483	20,975	8,261,056
Other financial assets measured at fair value	1,518	173,135	152,002	1,169,976	-	714,886	2,211,517
Loans and advances measured at amortized cost	13,124,270	986,901	22,086,609	5,029,631	839,442	53,974	42,120,827
Islamic financing and investment products measured at amortized cost	721,753	64,848	4,317,855	412,041	64,707	28,085	5,609,289
Other financial assets measured at amortized cost	5,757	5,658,565	3,329,957	242,029	3,420	125,156	9,364,884
Interest receivable and other assets	-	-	-	-	-	5,428,702	5,428,702
Investment properties	-	-	-	-	-	233,649	233,649
Property and equipment	-	-	-	-	-	1,215,062	1,215,062
Total assets	**27,497,168**	**11,179,335**	**38,955,398**	**7,455,873**	**937,052**	**8,597,118**	**94,621,944**
Liabilities and equity							
Deposits and balances due to banks	6,554,181	72,922	29,972	292,496	-	22,097	6,971,668
Repurchase agreements with banks	8,303,485	-	-	165,283	-	-	8,468,768
Customers' deposits	43,831,988	2,866,219	2,213,126	354,793	529,350	1,001,292	50,796,768
Islamic customers' deposits	2,011,594	457,888	391,537	-	-	-	2,861,019
Insurance and life assurance funds	-	419,215	239,006	200,366	-	-	858,587
Interest payable and other liabilities	6,487	-	-	-	-	5,623,273	5,629,760
Medium-term floating rate notes	7,178,299	-	-	-	-	-	7,178,299
Long-term loans	-	-	-	-	9,260	323	9,583
Equity attributable to shareholders of the parent	-	-	-	-	-	11,273,209	11,273,209
Non-controlling interest	-	-	-	-	-	574,283	574,283
Total liabilities and equity	**67,886,034**	**3,816,244**	**2,873,641**	**1,012,938**	**538,610**	**18,494,477**	**94,621,944**
On Balance Sheet gap	(40,388,866)	7,363,091	36,081,757	6,442,935	398,442	(9,897,359)	-
Off Balance Sheet gap	13,365	-	-	(18,365)	5,000	-	-
Cumulative interest rate sensitivity gap – 2009	**(40,375,501)**	**(33,012,410)**	**3,069,347**	**9,493,917**	**9,897,359**	**-**	**-**
Cumulative interest rate sensitivity gap – 2008	(28,683,132)	(26,987,103)	(5,291,712)	10,573,399	13,198,713	-	-

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. **Risk management** (continued)

Market Risk Management (continued)

Currency Risk Management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored. The Group's exposures on December 31, 2009 are:

	Net spot position AED'000	**Forward position AED'000**	**Total 2009 AED'000**	Total 2008 AED'000
U.S. Dollars	**10,436,260**	**(4,519,405)**	**5,916,855**	12,227,833
Qatari Riyals	**735,573**	**757**	**736,330**	474,066
Indian Rupees	**66,038**	**22,216**	**88,254**	(14,357)
Pound Sterling	**(1,157,901)**	**1,233,524**	**75,623**	46,821
Hong Kong Dollar	**1,657**	**(954)**	**703**	(2,698)
Egyptian Pound	**4,930**	**-**	**4,930**	(859)
Euro	**(458,788)**	**461,187**	**2,399**	(156,358)
Bahrain Dinar	**224,048**	**53,749**	**277,797**	50,090
Saudi Riyal	**(29,586)**	**31,450**	**1,864**	2,845
Japanese Yen	**(410,861)**	**411,238**	**377**	13,893
Swiss Francs	**1,849**	**(1,165)**	**684**	1,482
Pakistani Rupees	**16,346**	**-**	**16,346**	17,576
Others	**115,725**	**(98,424)**	**17,301**	7,055
Total	**9,545,290**	**(2,405,827)**	**7,139,463**	12,667,389

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.

Most of the positions are in currencies that are pegged to the U.A.E. Dirham; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated income statement or consolidated statement of comprehensive income.

Liquidity Risk Management

Liquidity Risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

Management of liquidity risk

The Group's senior management's focus on liquidity management is to:

- Understand better the various sources of liquidity risk, particularly under stressed conditions;
- Develop effective contingency plans;
- Develop a comprehensive approach to management of liquidity risk to ensure that it is in line with the Group's overall risk appetite; and.
- Improve resilience to a sharp decline in market liquidity and to demonstrate that we can survive the closure of one or more funding markets by ensuring that finance can be readily raised from a variety of sources.

Assets and Liabilities Committee ("ALCO") has a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Group's operation on the basis of such review.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Liquidity Risk Management (continued)

Management of liquidity risk (continued)

The members of ALCO are the Chief Executive Officer, the Head of Corporate Affairs, Head of Corporate & Investment banking, the Head of Retail Banking Group, the Head of Risk Management, the Head of Financial Institutions Group, the Head of International Banking and the Head of Treasury's Capital Markets.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash managed products and retail savings' schemes which have enabled it to mobilize low cost, broad base deposits. In order to diversify the funding sources, the EMTN program was launched in 2004 and, to date, this has raised AED 3.7 Billion in medium-term borrowings. During the year ended December 31, 2007, the Group raised AED 1.8 Billion for 5 years through a syndicated borrowing arrangement.

To measure and monitor its liquidity, the Group uses various indicators including regulatory ratio of utilization of funds to stable resources. Other indicators include Advances to Deposits and Stable Funds Ratio, liquid assets to Deposits ratio and Liquid assets to adjusted assets ratio. The Treasury function in the Group is responsible to manage the liquidity and it follows strict guidelines for deployment of liquid assets within each liquidity bucket. Periodic stress tests are performed to ensure the availability of funds during stressed situations.

Inter-bank borrowing lines and repo facilities with global banks and the Central Bank of U.A.E. are part of the contingency funding options maintained by the Treasury.

The following table summarizes the maturity profile of Group's assets and liabilities based on contractual repayment arrangements. 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:

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Liquidity Risk Management (continued)

Maturity Profile:
The maturity profile of assets and liabilities as at December 31, 2009 were as follows:

	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with central banks	8,826,355	3,700,000	7,550,000	100,603	-	20,176,958
Deposits and balances due from banks, net	6,001,931	839,887	383,024	1,006,731	29,483	8,261,056
Other financial assets measured at fair value	328,779	47,159	21,704	1,412,049	401,826	2,211,517
Loans and advances, net	16,781,865	2,148,936	3,109,392	16,722,606	3,358,028	42,120,827
Islamic financing and investment products, net	2,657,116	619,877	266,145	1,887,888	178,263	5,609,289
Other financial assets measured at amortized cost, net	1,684,923	1,314,726	744,904	3,729,409	1,890,922	9,364,884
Interest receivable and other assets	1,531,026	3,424,441	409,546	63,689	-	5,428,702
Investment properties	-	-	-	-	233,649	233,649
Property and equipment	-	-	-	-	1,215,062	1,215,062
Total assets	**37,811,995**	**12,095,026**	**12,484,715**	**24,922,975**	**7,307,233**	**94,621,944**
Liabilities and equity						
Deposits and balances due to banks	6,574,442	72,922	31,808	292,496	-	6,971,668
Repurchase agreements with banks	8,303,485	-	-	165,283	-	8,468,768
Customers' deposits	44,784,337	2,903,677	2,219,853	358,290	530,611	50,796,768
Islamic customers' deposits	2,011,594	457,888	391,537	-	-	2,861,019
Insurance and life assurance funds	-	419,215	239,006	200,366	-	858,587
Interest payable and other liabilities	2,063,256	1,731,395	968,923	640,376	225,810	5,629,760
Medium-term loans	1,193,725	-	-	4,545,493	1,439,081	7,178,299
Long-term loans	-	-	-	-	9,583	9,583
Equity attributable to shareholders of the parent	-	-	-	-	11,273,209	11,273,209
Non-controlling interest	-	-	-	-	574,283	574,283
Total liabilities and equity	**64,930,839**	**5,585,097**	**3,851,127**	**6,202,304**	**14,052,577**	**94,621,944**

Maturity profile as at December 31, 2008:

Total assets	36,992,821	11,681,260	9,764,920	27,112,016	7,692,504	93,243,521
Total liabilities and equity	59,563,024	7,932,710	4,419,757	8,583,868	12,744,162	93,243,521

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. **Risk management** (continued)

Fair value of financial instruments

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. As such, 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.

Fair value of financial assets carried at amortized cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortized cost in the consolidated financial statements approximate their fair values.

	December 31, 2009		December 31, 2008	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	AED'000	**AED'000**	AED'000	AED'000
Financial assets				
- Held to maturity investments	-	-	9,350,443	7,733,050
- Other financial assets measured at amortized cost	**9,364,884**	**7,664,930**	-	-
Financial liabilities				
- Medium term floating rate notes	**3,734,706**	**3,067,794**	5,234,025	4,212,013

The fair value for held-to-maturity investment and other financial assets measured at amortized cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Medium term floating rates notes are notes listed in Luxembourg Securities Exchange. The fair value for these notes is determined with reference to quoted market prices.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2009

42. Risk management (continued)

Fair value of financial instruments (continued)

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets measured at fair value				
Other financial assets measured at FVTPL				
- Debt securities	216,470	90,046	-	306,516
- Equities	114,443	-	-	114,443
- Mutual and other funds	20,627	148,266	-	168,893
Other financial assets measured at FVTOCI				
- Equities	923,669	190,391	-	1,114,060
- Mutual and other funds	31,017	135,858	340,730	507,605
Total	**1,306,226**	**564,561**	**340,730**	**2,211,517**
Other assets				
Positive fair value of derivatives	301,645	967,553	-	1,269,198
Other liabilities				
Negative fair value of derivatives	274,379	996,057	-	1,270,436

There were no transfers between Level 1 and 2 in the year.

42. Risk management (continued)

Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI

	2009
	AED '000
At January 1	320,745
Purchases	25,685
Total losses in other comprehensive income	(5,700)
At December 31	340,730

The investments classified under Level 3 category have been fair-valued based on information available for each investment. Based on the information available the valuation has been carried on net asset value or valuation provided by the portfolio managers.

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at December 31, 2009:

	Reflected in statement of income		Reflected in other comprehensive income	
	Favourable change	Unfavourable change	Favourable change	Unfavourable change
	AED'000	AED'000	AED'000	AED'000
Other financial assets measured at fair value	58,985	(58,985)	162,167	(162,167)

Majority of the derivatives financial instruments are back to back; therefore, any change to the fair value of the derivatives resulting from price inputs chances will have insignificant impact on the statement of income or statement of comprehensive income.

43. Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements. These include assets held in a fiduciary capacity for a related party as of December 31, 2009 of AED 850.835 million (2008: AED 784.614 million).

44. Fund management

Makaseb Funds Company BSC (subsidiary – Note 1) manages a number of equity funds which are not consolidated in these consolidated financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

45. Foreign restricted assets

Net assets equivalent to AED 71.934 million as of December 31, 2009 (2008: AED 66.266 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.