annual report 2011

التقرير السنوي ٢٠١١

mashreq المشرق

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

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Mashreqbank psc established in 1967

Head Office: P.O. Box 1250, Dubai, United Arab Emirates, Tel: 009714-2223333,
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

Year 2011 was marked by unprecedented turmoil in the Middle East. The wind of change which swept through the region heightened the economic uncertainties and hampered the expected recovery. Europe also remained embroiled in a debt crisis which threatened the existence of the Euro and plunged the financial sector across the globe into a liquidity crunch not seen in many years. Notwithstanding these external challenges, the UAE economy performed reasonably. The stable political environment, strong oil prices and prudent regulatory regime helped the UAE withstand the global and regional pressures with little or no adverse effect.

Keeping the economic uncertainties and impending challenges in mind, Mashreq continued its efforts to rationalize and reposition its balance sheet. During 2011, loans to customers including Islamic Financing reduced by 8.5% to AED 37.7 Billion. Although loans to target segments increased, the reduction in total loans was achieved by cutting the lending to non-strategic sectors. Mashreqbank maintained a very liquid balance sheet with loans and advances forming only 47.6% of the Total Assets as on 31st December 2011. Liquid Assets in the form of Cash and Balances with the Central Bank and Due from Banks constituted 31.4% of Total Assets.

In line with the reduced loan book, we rationalized our liabilities and shed some expensive deposits which brought our Customer Deposits down by 11.4% to AED 45.4 Billion. Nevertheless our Advances to Deposit ratio remained healthy at 83%. The rationalization of the balance sheet structure led to a reduction of 6.6% in Total Assets which at end of December 2011 reached AED 79.2 Billion.

Inspite of rationalization of balance sheet structure, the Net Interest Income of AED 1.94 Billion was achieved with a healthy Net Interest margin of 2.42%. Non-Interest Income excluding a one time gain on sale of assets was maintained at a healthy level of AED 1.9 Billion.

Non-Interest Income (including Fee Income) to Total Income ratio improved from 47.8% in 2010 to 49.8% in 2011 and is among the best in our peer group.

The focus on cost management resulted in keeping costs almost flat with a marginal increase of 1.7%. With significant improvements in charge for impairment allowances from AED 1.8 Billion in 2010 to AED 1.2 Billion, the Net Profit improved from AED 803 Million in 2010 to AED 820 Million in 2011.

Capital Adequacy ratio as per Basel II guidelines remained at 2010 level of 22.6% - one of the highest in the market. Tier-1 ratio further improved to 16.2% from 15.9% in 2010 against the minimum requirement of 12%, set by UAE Central Bank.

Keeping the high Capital Adequacy ratio in mind, your Board recommends a cash dividend of 20% which will result in a dividend payout of 41.2% of 2011 Net Profit.

UAE ECONOMY

The marginal economic recovery seen in 2010 accelerated in 2011. According to officials announcement the GDP of the country registered a growth of 4% in 2011. This respectable growth came on the back of higher oil prices, sustained infrastructure spending, growing non-oil trade and tourism. The non-oil foreign trade during the first 8 months of the year jumped to AED 600 Billion compared to AED 492.5 Billion for the same period last year posting a healthy growth of 22%. India, China, Japan, Korea, Germany and Saudi Arabia were the main trading partners.

The property sector which crashed in 2008 triggering a downturn in the UAE economy, stabilized and is showing signs of slight recovery. The country's reputation, as safe haven for investments in the wake of the economic turmoil, attracted investments in different sectors including Real Estate. Resultantly residential property rents and property prices in selected locations registered some improvements.

Oil related spending remained the main driver of the huge capital outlay in Abu Dhabi. Investments to the tune of US$ 50 Billion are being made to boost oil production capacity from present 2.5 m. barrels a day to 3.5 m. barrels a day by 2016. During the same period oil refining capacity will also see an increase of 50%. Takreer, the refining arm of ADNOC launched the Ruwais Refining expansion to install new 417,000 bpd oil refining capacity. Abu Dhabi International Petroleum Investment Company started work on a new AED 11 Billion oil refinery in Fujeirah.

The Tourism and Leisure industry had another successful year reflected in the growing passenger traffic handled by Dubai Airport, higher occupancy rates at hotels and significantly higher consumer spending across the country's retail stores. Sales at Dubai Duty Free were up 16% in 2011 as compared to last year and similar growth was reported by majority of shopping malls and retail stores.

The UAE Government approved a draft federal budget of AED 41.8 Billion for 2012 which is marginally up as compared to 2011. However spending on social services including education and health will grow by 30% to AED 19.7 Billion.

The Dubai GRE debt remained a concern; however negotiations with banks seem to be progressing well and it is expected that major issues will be resolved in 2012.

During the first eleven months of the year, UAE banking sector Assets grew by 4.2% with similar growth registered in net loans while Deposits during the same period grew marginally by 0.4%. However market liquidity remained comfortable with marginal utilization by the banks of liquidity support facility set up by UAE Central Bank in the aftermath of 2008 liquidity crisis. During the year, the Central Bank issued new regulations for Consumer Lending business which is expected to slow down the growth of overall consumer lending.

OUTLOOK FOR 2012

Notwithstanding the risk of global slowdown and reduced trade flows outlook for UAE banking for 2012 is relatively promising. It is expected that comfortable market liquidity, high capital adequacy, improving risk cost and stronger economic growth will help UAE banking sector to post a better performance in 2012.

Our plans for 2012 reflect this cautious optimism. Last year we revamped our Risk Management policies, reorganized our business in line with our customer centric approach and had embarked on a major process reengineering exercise. The full benefit of this transformation will be felt in 2012 and accordingly has been built in our plans for this year. We have further enhanced our focus on Abu Dhabi and now have a dedicated CEO there in order to manage our growth strategy for Abu Dhabi. Global

Transaction Series and Mashreq @work are two major initiatives which will boost our cross sell capability and improve our share of wallet from our corporate customers. Retail Banking has also redesigned its offerings and service delivery channels and expects to grow its penetration in Select Customer Segments particularly the affluent segment. The Mashreq Majestic launch of bundled products has already been a singular success and will lead the way for further growth in that segment. Various Process Re-engineering initiatives that have been recently launched will help improve efficiency and service quality across the branch network.

The detailed level of planning, customer centric business approach and various initiatives undertaken in 2011 reassure me of the ability of the Leadership Team to deliver a superior performance in 2012.

I take this opportunity to thank the CEO and the staff of Mashreqbank for their commitment and dedication and for delivering a sustained performance in these challenging times. I also want to express my thanks to our customers, the Central Bank and the Government of UAE for their continued support.

Thank you.

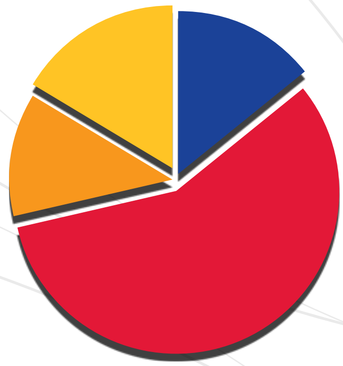
Abdullah Bin Ahmed Al Ghurair
Chairman

IMPORTANT INDICATORS	2007	2008	2009	2010	2011
ADVANCES TO CUSTOMER DEPOSITS	72.4%	106.6%	89.0%	80.4%	**83.0%**
EQUITY TO TOTAL ASSETS	12.0%	11.5%	12.5%	14.6%	**16.2%**
RETURN ON AVERAGE SHAREHOLDER'S EQUITY (AFTER-TAX)	22.4%	16.7%	9.4%	6.9%	**6.8%**
RETURN ON AVERAGE ASSETS (AFTER-TAX)	2.6%	1.8%	1.1%	0.9%	**1.0%**
EFFICIENCY RATIOS	36.6%	47.0%	35.7%	40.2%	**46.3%**
CAPITAL ADEQUACY RATIO (AS PER CB)	17.8%	13.5%	20.2%	22.7%	**22.6%**

CLASSIFICATION OF ASSETS/LIABILITIES - DECEMBER 31

ASSETS	2007	2008	2009	2010	2011
OTHER ASSETS	6.7%	9.3%	7.0%	7.2%	**8.3%**
CASH AND BANK BALANCES	35.6%	16.5%	30.1%	31.9%	**31.4%**
ADVANCES	39.9%	58.9%	50.4%	48.6%	**47.6%**
INVESTMENTS	17.8%	15.3%	12.5%	12.3%	**12.7%**
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

LIABILITIES	2007	2008	2009	2010	2011
LONG TERM AND OTHER LIABILITIES	13.3%	14.6%	14.5%	13.9%	**14.2%**
CUSTOMER DEPOSITS	55.1%	55.2%	56.7%	60.4%	**57.3%**
BANK DEPOSITS	19.6%	18.7%	16.3%	11.1%	**12.3%**
SHAREHOLDERS' EQUITY	12.0%	11.5%	12.5%	14.6%	**16.2%**
	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**



Worldwide Prescence

UAE BRANCHES

ABU DHABI	Tel	Fax
Abu Dhabi Main	02-6127200	02-6270214
Zayed II Street	02-6178717	02-6212822
Al Salam	02-6967700	02-6742482
Muroor	02-4198212	02-4481821
Al Mushrif	02-4079215	02-4431717
Khalidiya	02-6937805	02-6673883
Musaffah	02-5555051	02-5555052
Al Najdah	02-4998211	02-6711004
Muroor II	02-6416628	02-6417904
ADK Karama	02-4017030	02-4439138
Khalifa “A” City	02-5134305	02-5567458
AL AIN		
Al Ain Main	03-7661176	03-7662927
Al Ain AIT	03-7661178	03-7668896
DUBAI		
Dubai Mall	04-4344113	04-4344103
Dubai International City	04-4221313	04-4220372
Al Murraqabat	04-6062372	04-2657449
Al Khaleej	04-7067716	04-7067722
Suq Al Kabeer	04-2264178	04-2252912
Riqa	04-2077417	04-2233785
Khor Dubai	04-5069229	04-5069293
Jumeirah	04-4077624	04-3452179
Jebel Ali	04-8871412	04-8815482
Sheikh Zayed Road	04-3028424	04-3212574
Al Ghusais	04-6013500	04-2510853
Al Rashidiya	04-2857008	04-2860373
Dubai Internet City	04-3632031	04-3611091
Dubai Health Care City	04-3624760	04-3624759
Al Aweer	04-3714926	04-3200415

	Tel	Fax
Karama	04-3360547	04-3367359
Motor City	04-4554006	04-4579295
Mizhar	04-2316401	04-2845651
JBR	04-4242311	04-4233794
Burjuman	04-5097312	04-3967105
Al Nahda	04-6052905	04-2578543
Al Quoz	04-3824801	04-3395676
Mall Of The Emirates	04-5118606	04-3996021
EBV Branch	04-4404544	04-4329367
Umm Suqeim	04-3183900	04-3952191
SHARJAH		
King Abdul Aziz	06-5077603	06-5745334
Sharjah Main	06-5118000	06-5689590
Buhaira	06-5177803	06-5744446
Al Khan	06-5770131	06-5772977
SHJ Industrial Area	06-5131211	06-5340188
AJMAN		
Ajman Main	06-7017300	06-7426690
FUJAIRAH		
Fujairah	09-2027213	09-2226860
KHORFAKKAN		
Khorfakkan	09-2017512	09-2778950
RAS AL KHAIMAH		
Al Nakheel	07-2284748	07-2281880
UMM AL QUWAIN		
Umm Al Quwain	06-7067515	06-7664948
DHAID		
Dhaid	06-8027419	06-8027494

SUBSIDIARIES

UAE - DUBAI	Tel	Fax
Oman Insurance Co. PSC	04-2337777	04-2337775
Tlx: 46030 OIC EM		
Mindscape Information Technology LLC	04-4244112	04-4247210
Mashreq Securities LLC	04-3632222	04-4247322
Injaz Services FZ LLC	04-4246000	04-2226061
Mashreq Al Islami Finance Co. PJSC	04-3632346	04-4247397
Mashreq Capital (DIFC) Ltd.	04-2223333	04-2283491

BAHRAIN	Tel	Fax
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

OVERSEAS BRANCHES

AFRICA

Egypt
6th of October
Tel: (202) 24562001
Fax: (202) 38361340

Dokki
Tel: (202) 010 6858032
Fax: (202) 33363096

El Kattameya
Tel: (202) 24569000
Fax: (202) 29298695

Merryland-Heliopolis
Tel: (202) 24529303
Fax: (202) 22569850
Swift: MSHQ EGCA

Maadi
Tel: (202) 25160677
Fax: (202) 25160900

Mohandseen
Tel: (202) 24563701
Fax: (202) 33053655

Nasr City
Tel: (202) 24032347
Fax: (202) 24032346

Zamalek
Tel: (202) 27358275/8
Fax: (202) 27358272

Alexandria
Tel: (203) 24566901
Fax: (203) 4296058

MIDDLE EAST

Bahrain
Manama
Tel: (973) 17504444
Fax: (973) 17215990

Qatar
C Ring Road - Main
Tel: (974) 44249666
Fax: (974) 44249648

Doha Branch
Tel: (974) 4413213
Fax: (974) 4413880
Swift: MSHQ QA QA

Ramada
Tel: (974) 44329974
Fax: (974) 44329288

TV Roundabout
Tel: (974) 44886053
Fax: (974) 44867207

Kuwait
Safat
Tel: (965) 24954802
Fax: (965) 24954862

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
Fax: (1) 212 5450919
Swift: MSHQ US 33
Telex: 239881 MSHQ NY

ASIA

Hong Kong
Tel: (852) 2521 2938
Fax: (852) 2521 4289
Swift: MSHQ HK HH

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

REPRESENTATIVE OFFICES

Bangladesh
Dhaka
Tel: (88) 02-7125169/68
Fax: (88) 02-7124195

Pakistan
Karachi
Tel: (92) 21-35656830/2
Fax: (92) 21-35656872/3

Sudan
Khartoum
Tel: (249) 183740860/61/62
Fax: (249) 183740860

Nepal
Kathmandu
Tel: (977) 15-111017/18
Fax: (977) 15-111019

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 quantitative and 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 2011, fee payable is AED 4.25 Million which is 0.52% of Net Profit attributed to share holders of the parent.

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 2011 Mashreqbank Board had 4 meetings.

Board Committees

Audit Committee of the Board: The Audit Committee of the Board consists of the following 3 Non-Executive Directors:

1. Mr. Mohammed Abdulla Al Ghurair
2. Mr. Majid Saif Ahmed Al Ghurair
3. Mr. Abdulla Mohammed Ibrahim Obaidullah

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 Ahmed Lootah
2. Mr. Abdul Rahman Saif Ahmad Al Ghurair
3. Mr. Abdulla Mohammed Ibrahim Obaidullah

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.

(vi) **Human Resource Committee:** The Human Resource Committee is focused to ensure that the bank adopts best practices in the area of people management. It works in coordination with Human Resource Division of the bank to improve attraction, retention and development of the talent.

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 07, 2010 on a fee of AED 675,000. 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 15,442 shares representing 0.00913% 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

Pillar III: 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 and guidelines, 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 Mashreq Bank

Risk Type	Current Approach Adopted	Planned Future Approach	Planned Implementation Date
Credit	Standardized	Foundation Internal Ratings Based (FIRB) - Wholesale banking book - Retail Banking Book	Mid 2012* Future Date
Market	Standardized Measurement Approach (SMA)	Standardized Measurement Approach (SMA)	Not Applicable
Operational	Standardized Approach	Standardized Approach	Not Applicable

* *Subject to application & UAE Central Bank approval.*

Pillar 1 Scope

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 capital and solvency ratios. Internally developed ratings models have been in use since 2005 although the metrics are not reported for regulatory purposes. The FIRB Approach would be applicable to all banking entities and subsidiaries consolidated within the Mashreq Group. Implementation of the Advanced Internal Ratings Based Approach (AIRB) approach is at the discretion of the UAE Central Bank. The bank intends to lodge an FIRB Application during Q2 2012.

Market Risk – Standardized Measurement Approach

In terms of market risk, Mashreq Bank 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, Mashreq Bank applies the Standardized Approach. The Operational Risk Framework (ORM) 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 branches.

Pillar II Scope

The bank uses a credit capital model, employing the Credit Metrics methodology. Simultaneously the capital requirement for all other tangible material risks is determined and aggregated into an economic capital platform.

The Economic capital calculation covers all global banking operations and is calculated for all risk bearing assets, including loan and investment portfolios, plus equity and real estate assets.

A bottom-up methodology is employed, enabling capital to be allocated at a bank-wide, Business Unit and obligor level.

During the year the bank developed a Risk Adjusted Return on Capital (RAROC) model to determine the risk adjusted cost and economic price of business transactions conducted within the wholesale division. The model housed on the Intranet is available to all relationship manager users and extensive user training has been provided. The intention during 2012 is to assess the impact of RAROC on each portfolio and how the methodology should be introduced within the business.

The 31 December 2011 ICAAP calculation was prepared using the economic capital platform to derive the bank's capital demand. The capital surplus, being the excess of available financial resources over capital demand is being stress tested under various scenarios to ensure its adequacy and the results will be reported to the UAE Central Bank. ICAAP assessments, performed quarterly, demonstrate that the bank has adequate capital to cover all risks beyond the minimum regulatory requirements based on the size, location, complexity and concentration / diversification of its various banking entities.

The Economic Capital team prepares quarterly Capital Adequacy assessments, including a wide variety of adverse scenarios.

The bank's Risk Appetite tolerance levels have been set, being a combination of regulatory and internal limits and ratios governing key aspects of liquidity, credit and capital management. Concentration limits are set to manage key areas of high risk concentration risk, for example real estate.

The bank is currently in the process of finalizing its forward-looking Three year Capital Adequacy Assessment. The bank's capital buffer is significantly large enough to absorb any unexpected deterioration in portfolio credit quality.

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 disclosed in a separate section in 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).

1. Risk Management Objectives and Policies

1.1 Risk Management Overview

Objectives

The main goals of Mashreq Bank'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.

Mashreq Bank 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. 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

Mashreq Bank'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 Mashreq Bank.

ALCO Committee

The ALCO Committee 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

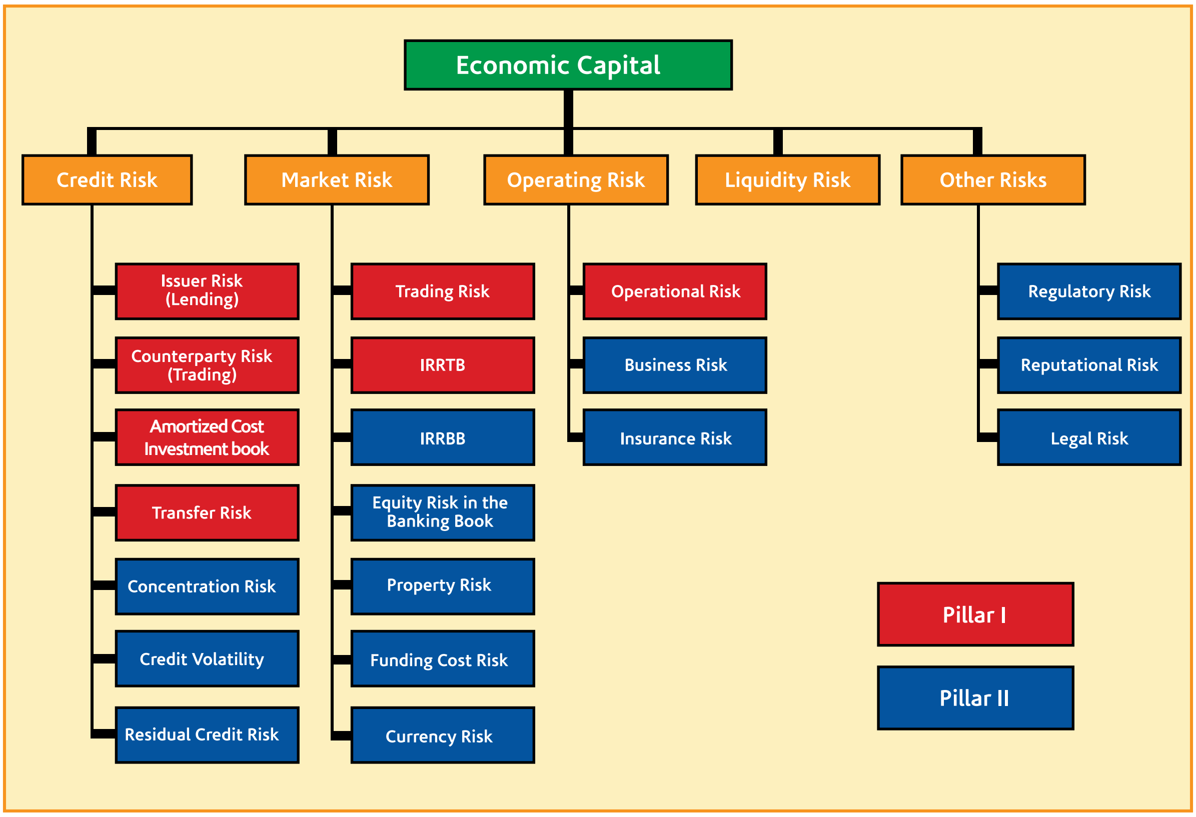
The Group has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor material risks arising out of its day to day operations.

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

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

NB: Change Group Risk Taxonomy chart to include Liquidity risk combined with other risk for which capital is not provided.

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 are aggregated using the above taxonomy and the bank's aggregate Risk Capital requirement determined.

Mashreq has the following ICAAP quantitative models:

- Credit Risk (including the concentration risk)
- Market Risk
  - Trading and equity risk – VaR Methodology
  - Funding cost risk
  - Interest Rate Risk in the Banking Book
- Operational Risk – Standardized approach
- Business Risk

Committee Structure

The Risk Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the CEO, as instructed by 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 Model Development & Capital Management Unit (formerly Credit Risk & Control Unit) is an independent unit within 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"). The Unit is also responsible for credit & economic capital management, credit portfolio management and related activities.

All material portfolios are covered by risk models. Management considers that the rating and capital management systems and methodology employed remain robust. During the downturn the models exhibited behavior consistent with a deteriorating credit environment and higher systemic risk.

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, Mashreq Bank 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.
- Facility Risk Rating (FRR): Facility Risk rating (FRR) is a concept that provides an additional dimension into the decision process that will impact a wide range of activities in the Credit Risk Management Process. In order to accurately reflect risk one has to go beyond the obligor credit quality to examine the Quality of the Collateral supporting the Loan. "A high PD for an obligor need not necessarily translate into a high EL, because collateral supporting such a facility can in fact yield a low EL."

The above metrics yield an estimation of Expected Loss for the various Obligors / Product Portfolios in Retail and Obligors / Business Segments in Wholesale, which are aggregated at Bank level to derive the consolidated Expected Loss for Mashreq Bank.

For Pillar II purposes the risk capital consumption of each transaction, counterparty and portfolio is a 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 and pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head in line with the Wholesale Credit Policy manual, 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 proposals carry the recommendations of the sponsoring Business Unit with approval authority residing with (independent) Risk Management.

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 approval 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 also established cross border country limits for managing transferability and convertibility cross border risks. These limits are reviewed at least annually 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

The bank's credit capital and portfolio management system, inter alia, monitors the credit risk capital consumption of each transaction, obligor and (sub) portfolio. Sectors and exposures with high volatility or concentration risk attract more capital, requiring either a higher commensurate return or some form of mitigation.

Within the bank's Risk Appetite framework credit concentration limits risk is monitored as part of the ICAAP process which has been embedded into the three-year Strategic Planning Cycle.

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 Board of Directors. 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 onwards, 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.

A Pillar II economic capital platform has been developed that provides effective bottom – up capital assessment and portfolio management. Risk adjusted capital allocation and pricing has been introduced enabling the bank to determine risk adjusted customer level profitability.

IT systems

In order to foster best practices in its IT systems and to ensure state-of-the-art responses to Basel II requirements, Mashreq Bank 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 Model Development & Capital Management Unit.

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.

During the year a project was undertaken to rebuild, validate and calibrate a complete new suite of scorecards to ensure that calculation of risk metrics was based upon up-to-date scorecards and data. This project was completed early in Q3 2011.

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.

- **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

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 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 VaR.

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.

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

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 the bank 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 of which one tranche is still outstanding. Additionally the bank has availed of the Ministry of Finance subordinated term loan facility, amounting to AED 3.4 billion, which is treated as Tier 2 Capital.

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.

A **Liquidity Contingency Funding Plan** has been formulated within the ICAAP framework. The Contingency Funding Plan is based upon the actual measures that the bank took during the 2008/9 crisis to improve its liquidity position. These measures included:

1. Reducing the Advances-to-Deposit ratio to very conservative norms, well below the 100% threshold generally used as a benchmark
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

Liquidity Management within the Internal Capital Adequacy Assessment Process (ICAAP)

In 2011 major emphasis was placed upon addressing the liquidity requirements formulated within the Basel III framework.

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

The Report highlighted that

- The Short Term Liquidity Coverage Ratio (LCR) proposed should ensure that banks have sufficient funds to survive an acute stress scenario lasting 30 Days.
- The Stock of High Quality Liquid Assets, as measured should be greater than the net cash outflow incurred under an acute stress scenario.

During 2011 the UAE Central Bank performed a Quantitative Impact Survey to assess the compliance of banks with the Liquidity Coverage Ratio (LCR). The final results have not yet been released.

As part of the ICAAP a Liquidity Risk Tolerance Statement has been developed, which, together with the bank's Risk Appetite & Risk Capacity Statement, provide a sound foundation for Strategic Planning & Management 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.

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)**

The core of Mashreq Bank's business is usually based on accepting customer deposits and/or borrowing from the market for a range of maturities and lending at a higher interest rate for varying maturities in order to earn a margin (the so called net interest margin). Abrupt or large changes in the interest rate curve can affect the profitability of a bank significantly as it directly affects this margin.

Mashreq Bank has adopted the Equity Approach to quantify IRRBB with the following four stresses being applied to the Yield curve to determine the IRRBB Capital that is held.

- Parallel shifts of the whole yield curve, one up and one down shift
- Changes in the shape of the yield curve, one steepening and one flattening (or inversion)

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.

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.

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.

The bank performs short term partial hedges on its USD positions and carries some USD position risk as it has a fixed parity.

1.4 Management of Operational & Related Risks

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 was also designed and implemented in 2009/10. 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 the bank. 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.

A reporting mechanism is in place wherein automated heat-maps and dashboards are available to each unit, aggregating at levels up to the overall bank-wide view. Additionally quarterly reports are issued to Risk Committee members on the status of operational risks and operational losses for their oversight.

The Operations division of the bank is the risk owner for management of insurance risks. Operational risk evaluates the adequacy of insurance cover based upon the operational losses booked as against the claims made and settled on an ongoing basis. Risk areas identified which are not covered under insurance with scope for coverage are notified to the insurance unit to explore coverage options.

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 Mashreq Bank 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.

Key Risk Indicators

Risk indicators have been defined for each identified risk, which are collated monthly to provide meaningful trend information to the respective risk owners. This helps the risk owners to assess the risks adequately and also acts as a control and check point to identify under / over assessment of operational risk during the review cycle.

Operational Risk Tolerance Levels

During 2011 the bank finalized Operational Risk Tolerance limits for monitoring and inclusion within the ICAAP framework. Implementation of these limits is planned in 2012, wherein detailed disclosures will be held with stakeholders to rationalize and agree on recommended qualitative aspects of the model.

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 improve its efficiency ratios, primarily through a reduction in overhead costs.

Quantifying Business Risk

For economic capital purposes Business Risk is quantified by assessing the volatility of gross income and expenses at a 99.9% confidence level.

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

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.

Reputation Risk

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

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 Mashreq Bank Group, consolidated global banking operations. Non-Banking operations are excluded.

2.2. Differences between Accounting and Pillar III Reporting

As Pillar III is applicable to banking institutions and not to insurance and other non-banking entities, the scope of consolidation of Pillar III differs from the scope of consolidation of the financial statements which include the fully consolidated results and balance sheet 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 materially 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 bank conducts a quarterly assessment of its actual capital adequacy based upon its Economic Capital methodology. It also analyzes the expected impact on the Bank's capital adequacy resulting from its business plans for the period 2011-2013 and helps to evaluate whether the Bank's capital endowment is sufficient to support this level of risk.

Furthermore as part of the ICAAP process, the bank addresses the impact on its future capital adequacy under stressed scenarios.

Within its risk appetite statement, the Bank has articulated the following target capital adequacy ratios which have to be met in the long run:

- Tier 1 ratio: 12.0%
- Pillar 1 ratio: 14.0%
- Pillar 2 ratio Unstressed: 130.0%
- Pillar 2 ratio Stressed: 115.0%

As at 31 December 2011 the bank has a Regulatory Capital Adequacy Ratio of 22.64% and a Pillar II Capital Adequacy Ratio of 184 %, well in excess of the 130% target.

The Pillar II Capital Buffer increased by AED 2bn to approx. AED 8bn, mainly due to a decrease in capital demand caused by asset shrinkage as well as a net improvement in a few high-risk obligor ratings. The size of the Capital Buffer positions the bank very well against any unforeseen future losses as well as accommodating potential future growth. The Buffer is estimated to be sufficient to withstand a series of worst case scenarios, as tested within the ICAAP framework.

3.2 Risk Appetite & Capital Planning

The bank has developed an Economic Capital Management and Risk Appetite framework. The Capital Planning process is part of the three-year rolling strategic business planning cycle that was finalized early in 2011.

The Risk Appetite framework manages the bank's three year forward-looking risk profile (capital demand) in accordance with projected strategic business plans and market conditions after taking into account various stressed scenarios. The Risk Appetite is then compared with the bank's Available Financial Resources to determine the size and adequacy of the 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 charge-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 shares classified as FVTOCI, 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 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 charged off against the allowance account. Subsequent recoveries of amounts previously charged off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. 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 FVTOCI 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.

The 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 here 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

Retail loans are provided for as follows:

90 Days Past Due:	25%
120 Days Past Due:	50%
180 Days Past Due:	100%

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

All retail loans are charged off when installments are past due over 180 days. Mortgage loans that are classified as high risk are fully provided for at 180 days. All other loans are provisioned at 180 days for their negative equity component only. All fully provisioned loans are written off at the end of three years (1080 days).

5. Standardized Approach Methodology

5.1. Introduction

Mashreq Bank 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, Mashreq Bank 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, where rated.

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

Mashreq Bank is currently using the Standardized Approach.

5.5. Compliance with Regulatory Guidelines

Mashreq Bank complies with the various Guidelines issued by the UAE Central Bank and the Basel Committee.

6. Securitization Activity

6.1. Securitization Exposure

The bank does not have material securitization exposure(s). Activities are limited to investments in sukuk issues, most of which are held to maturity, the remainder being immaterial.

7. Tables

The following section comprises the quantitative disclosures under Pillar III.

7.1. Information on Subsidiaries and Significant Investments as on 31st December 2011

Accounting Treatment	Country of Incorporation	Ownership	Description	Subsidiaries
Osool - a Finance Company (PJSC)	United Arab Emirates	98.00%	Finance	Fully consolidated
Oman Insurance Company (PSC)	United Arab Emirates	63.65%	Insurance	Fully consolidated
Mindscape Information Technology LLC	United Arab Emirates	99.00%	Software/Application provider	Fully consolidated
Mashreq Securities LLC	United Arab Emirates	99.98%	Brokerage	Fully consolidated
Injaz Services FZ LLC	United Arab Emirates	100.00%	Service provider	Fully consolidated
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80%	Islamic Finance	Fully consolidated
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00%	Brokerage/asset & fund management	Fully consolidated
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90%	Fund manager	Fully consolidated
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90%	Fund manager	Fully consolidated
Bracebridge Limited	British Virgin Islands	Note 1	Special purpose vehicle	Fully consolidated
Orriston Limited	British Virgin Islands	Note 1	Special purpose vehicle	Fully consolidated

Note 1 : Bank's participation in capital is nominal, however the entities are considered subsidiaries by virtue of effective control.

7.2. Reconciliation of changes in Provision for Impaired Loans as on 31st December 2011

	Description	Amount (AED 000's)
	Opening Balance for Provisions for Impaired Loans	**3,099,714**
	Charge for the year	640,286
	Interest in suspense	220,476
	Write off of impaired loans during the year	(1,315,355)
	Recovery of loans previously written off	(50,715)
	Closing Balance of Provisions for Impaired Loans	**2,594,406**

Islamic Loans & Advances

	Description	Amount (AED 000's)
	Opening Balance for Provisions for Impaired Loans	**136,093**
	Charge for the year	30,980
	Profit in suspense	1,916
	Write off of impaired loans during the year	(103,698)
	Closing Balance of Provisions for Impaired Loans	**65,291**

7.3. Consolidated Capital Structure as on 31st December 2011

Tier 1 Capital	Amount (AED 000's)
1. Paid up share capital/common stock	1,690,770
2. Retained Earnings	9,792,462
3. Reserves	
a. Statutory reserve	846,745
b. Special reserve	
c. General reserve	312,000
4. Minority interests in the equity of subsidiaries	5,271
5. Innovative capital instruments	
6. Other capital instruments	
7. Surplus capital from insurance companies	
Sub-total	
Less Deductions for regulatory calculation	
Less Deductions from Tier 1 capital	33,022
Tier 1 Capital - Subtotal	**12,614,226**
Tier 2 capital	**5,055,512**
Less Other deductions from capitals	31,825
Tier 3 capital	-
Total eligible capital after deductions	**17,637,913**

7.4. Capital Adequacy as on 31st December 2011

Capital Requirements	Capital Charge (AED 000's)	Capital Ratio (%)
1. Credit Risk		
a. Standardised Approach	8,532,989	
2. Market Risk		
a. Standardised Approach	37,137	
b. Models Approach		
3. Operational Risk		
a. Basic Indicator Approach		
b. Standardised Approach/ASA	776,695	
Total Capital requirements	9,346,821	
Capital Ratio		
Total		22.64%
Tier 1		16.20%

7.5. Loan Portfolio as Per Standardised Approach as on 31st December 2011 (AED 000's)

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET	CREDIT RISK MITIGATION (crm)			RWA's
	GROSS O/S	EXPOSURE after CCF	EXPOSURE BEFORE CRM	CRM	After CRM	
CLAIMS ON SOVEREIGNS	15,304,473	-	15,304,473	-	15,304,473	374,504
CLAIMS ON NON-CENTRAL GOVERNMENT PSE'S	1,292,257	-	1,292,257	-	1,292,257	964,158
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	-	-	-	-	-	-
CLAIMS ON BANKS	10,245,339	5,860,081	16,105,420	8,702	16,096,718	6,438,890
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-	-
CLAIMS ON CORPORATES	30,101,802	21,892,996	51,900,398	2,727,246	49,173,152	48,553,130
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	5,924,405	5,635	5,930,040	21,238	5,908,802	5,174,453
CLAIMS SECURED BY RESIDENTIAL PROPERTY	2,482,446	-	2,482,446	-	2,482,446	985,527
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	452,387	-	452,387	516	451,871	451,871
PAST DUE LOANS	5,652,090	202,390	3,374,729	408	3,374,321	4,400,005
HIGH RISK CATEGORIES	291,941	-	291,941	-	291,941	437,911
OTHER ASSETS	4,218,417	-	4,218,417	-	4,218,417	3,224,947
CLAIMS ON SECURITISED ASSETS	-	-	-	-	-	-
CREDIT DERIVATIVES (BANKS SELLING PROTECTION)		102,849	102,849	-	102,849	102,849
Total	**75,965,558**	**28,063,951**	**101,455,359**	**2,758,110**	**98,697,247**	**71,108,245**

7.6. Gross Credit Exposures by Residual Contractual Maturity

Residual Contractual Maturity	Cash	Deposits & balances due from banks	Loans & Advances	Other Funded	Total
Less than 3 months	8,213,801	8,337,273	16,865,717	3,367,543	**36,784,334**
3 months to one year	6,517,999	1,575,169	5,685,752	3,516,369	**17,295,289**
One to five years		192,285	9,815,097	3,149,827	**13,157,209**
Over five years		42,948	5,327,943	6,633,599	**12,004,490**
Total	**14,731,800**	**10,147,675**	**37,694,509**	**16,667,338**	**79,241,322**

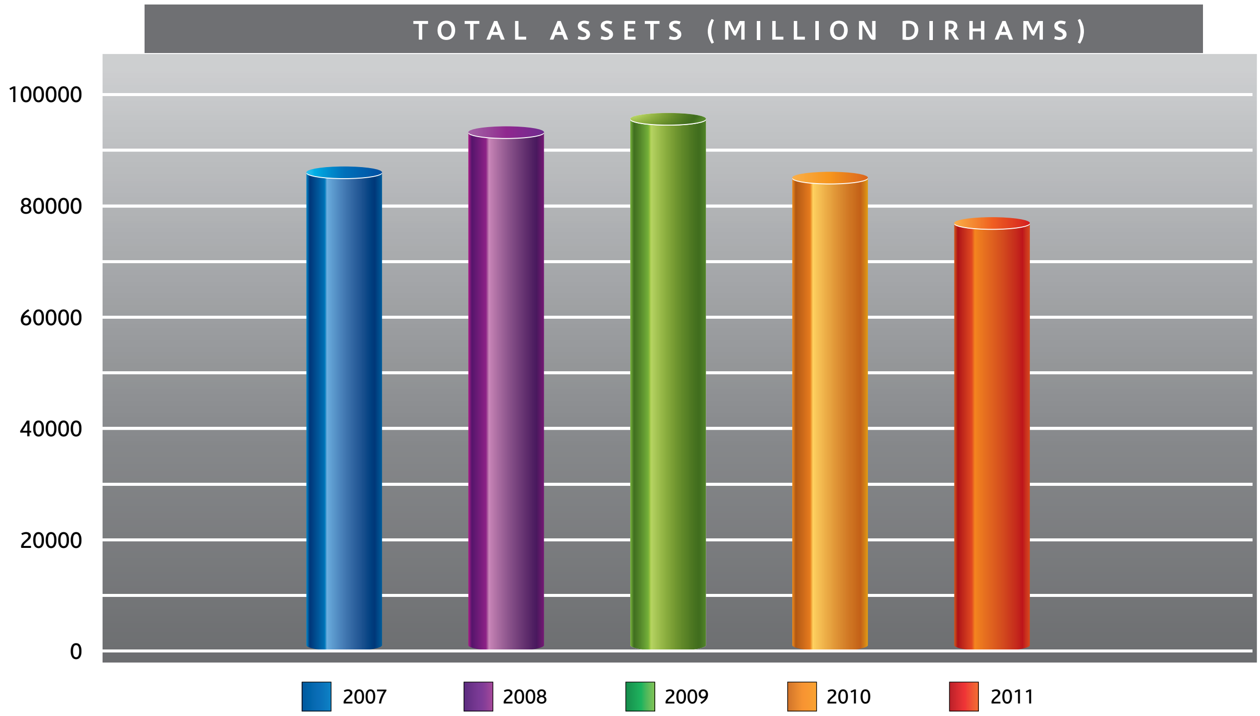
7.7. Total Capital Requirement for Market Risk (Standardized Approach) as on 31st December 2011

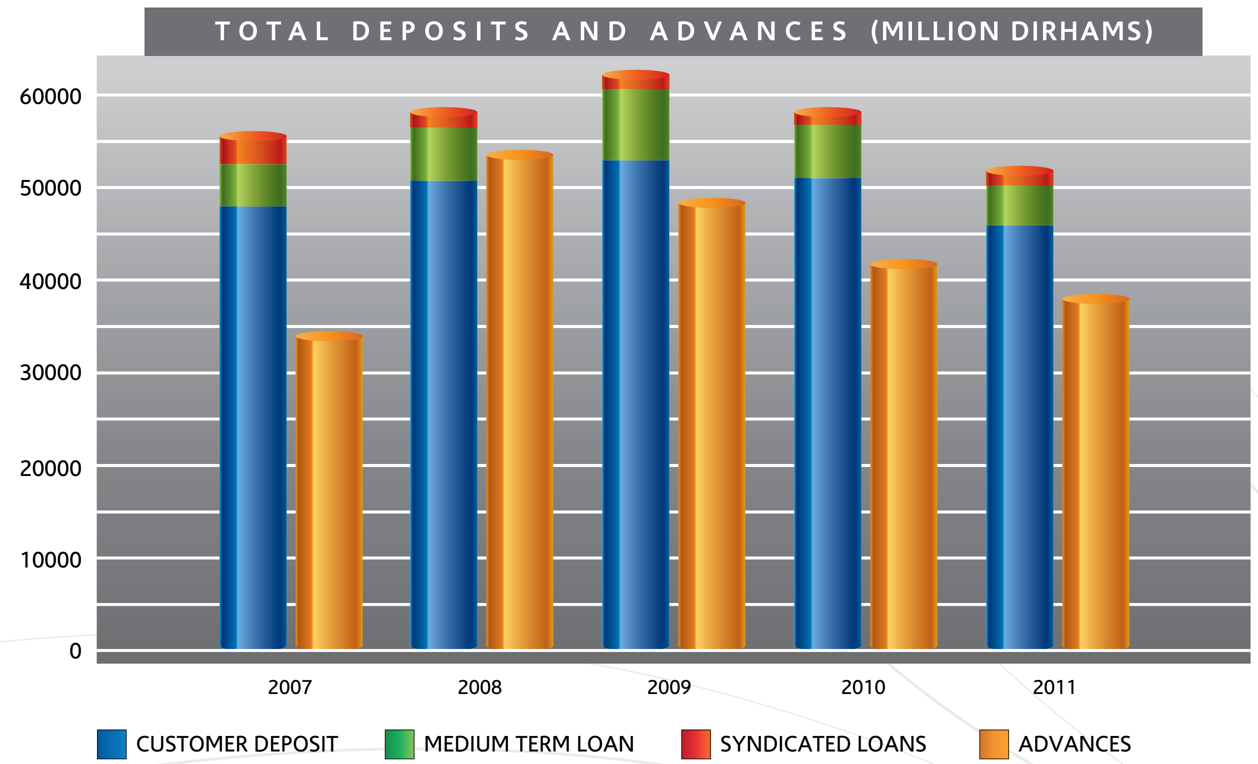
Risk Type	Amount (AED 000's)
Interest Rate Risk	16,534
Equity Position Risk	741
Foreign Exchange Risk	8,961
Commodity Risk	-
Options Risk	(446)
Total	**25,790**

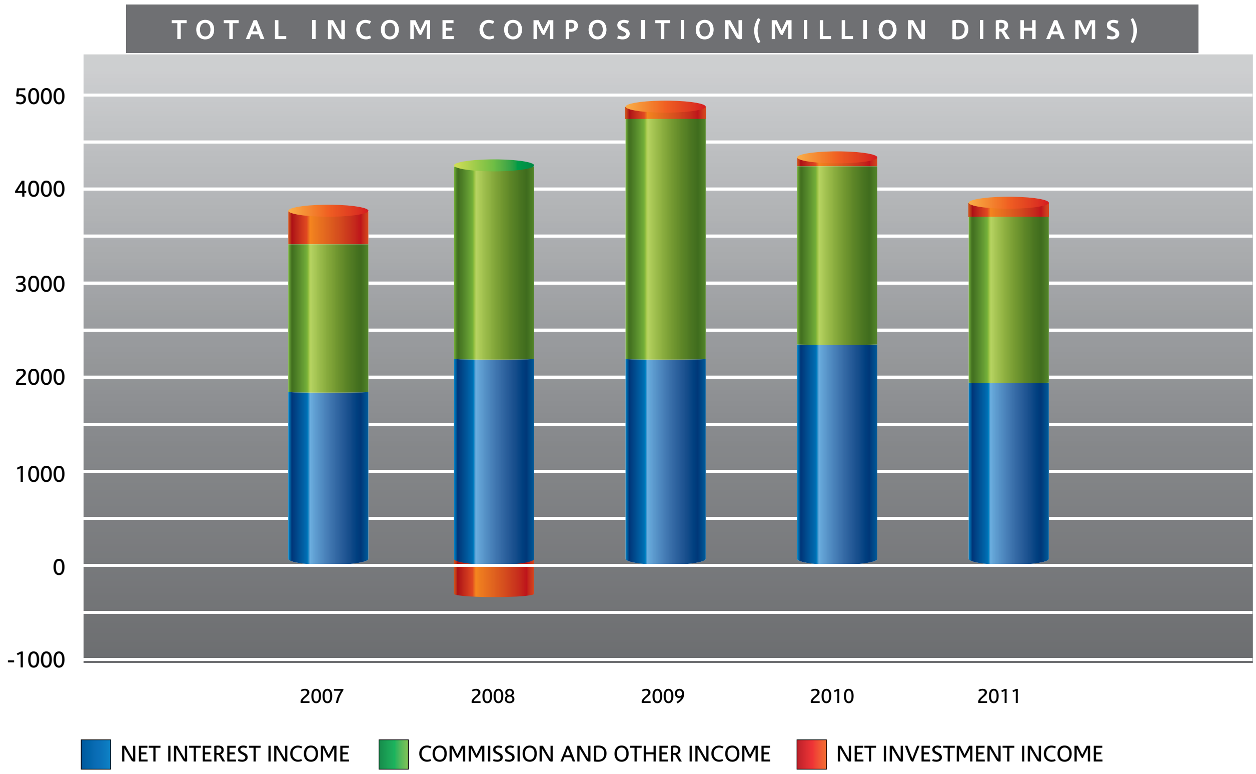
7.8. Interest Rate Risk in the Banking book as of 31st December 2011

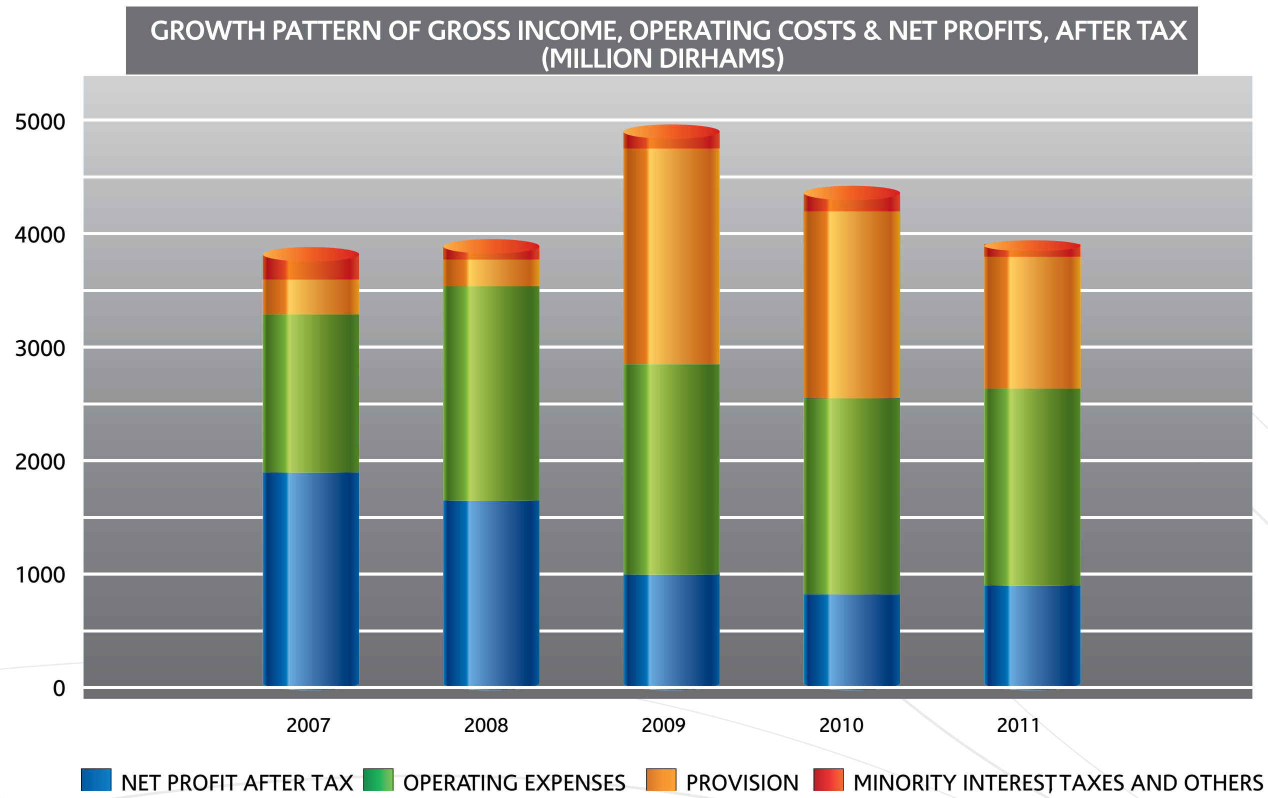
Shift in Yield Curves	Net Interest Income (AED 000's)
Base Case	1,305,627
(+) 100 basis points	1,414,845
(-) 100 basis points	1,233,698

Financial Highlights

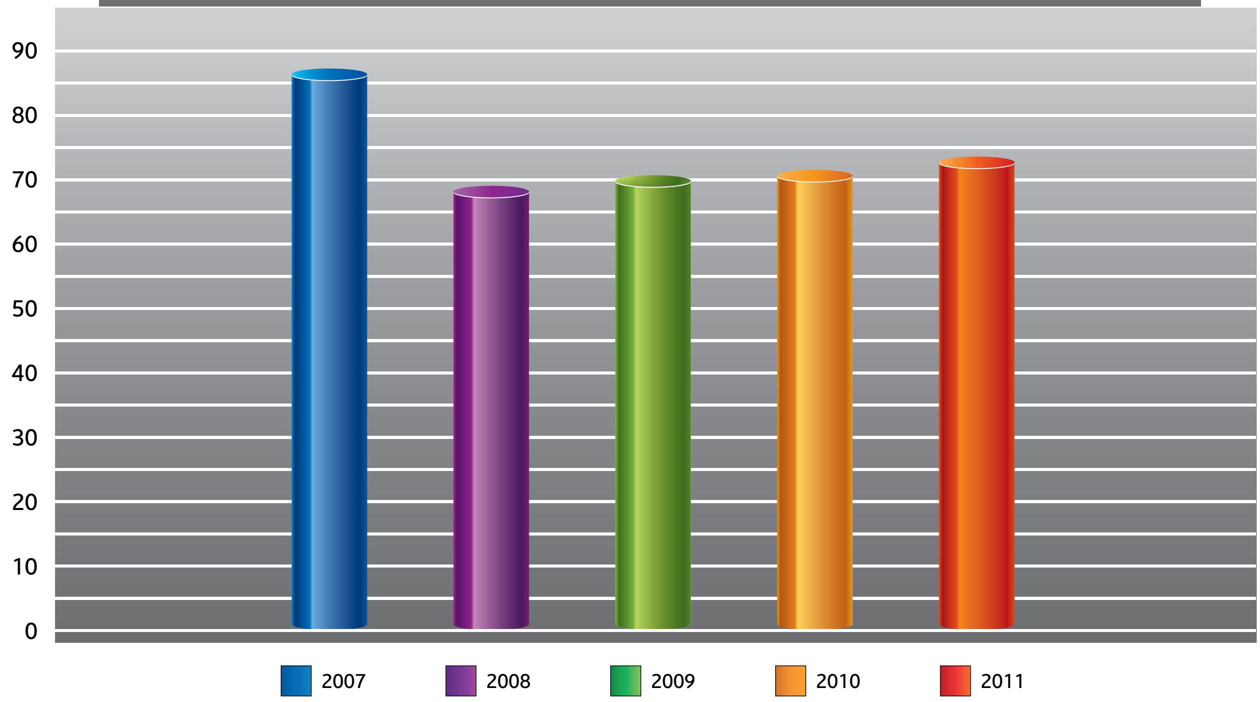

TOTAL ASSETS (MILLION DIRHAMS)
100000
80000
60000
40000
20000
0
2007
2008
2009
2010
2011


TOTAL DEPOSITS AND ADVANCES (MILLION DIRHAMS)
60000
50000
40000
30000
20000
10000
0
2007
2008
2009
2010
2011
CUSTOMER DEPOSIT
MEDIUM TERM LOAN
SYNDICATED LOANS
ADVANCES

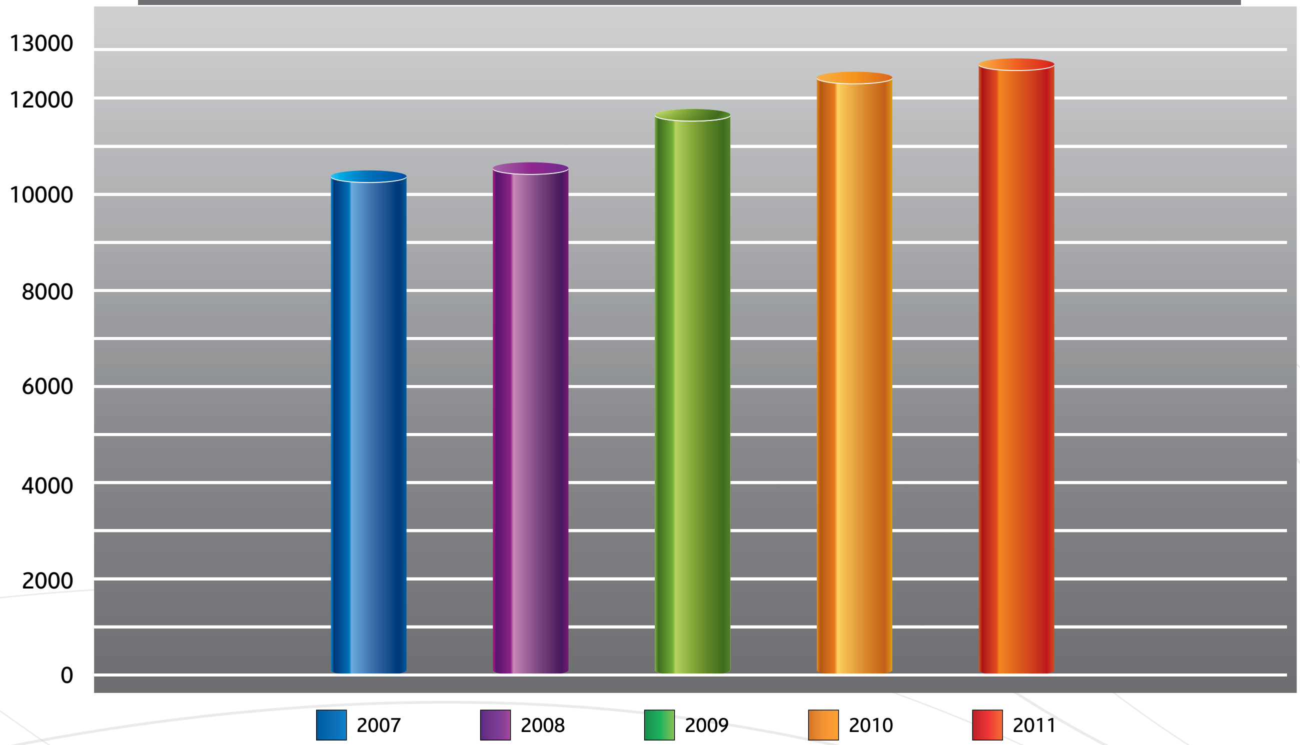

TOTAL INCOME COMPOSITION(MILLION DIRHAMS)
5000
4000
3000
2000
1000
0
-1000
2007
2008
2009
2010
2011
NET INTEREST INCOME
COMMISSION AND OTHER INCOME
NET INVESTMENT INCOME


GROWTH PATTERN OF GROSS INCOME, OPERATING COSTS & NET PROFITS, AFTER TAX (MILLION DIRHAMS)
5000
4000
3000
2000
1000
0
2007
2008
2009
2010
2011
NET PROFIT AFTER TAX
OPERATING EXPENSES
PROVISION
MINORITY INTEREST,TAXES AND OTHERS

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 at 31 December 2011, 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 information.

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 the International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements whether due to fraud or errors.

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 consolidated 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 as at 31 December 2011, and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information contained in the Board of Directors' report relating to the consolidated financial statements is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, 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 a material effect on the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521
Dubai
1 February 2012

Group Financial Statements

Consolidated Statement of Financial Position
at 31 December 2011

	Notes	2011 AED'000	2011 USD'000 Equivalent	2010 AED'000	2010 USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**14,731,800**	**4,010,836**	13,373,722	3,641,090
Deposits and balances due from banks	6	**10,147,675**	**2,762,776**	13,651,955	3,716,840
Other financial assets measured at fair value	7	**2,552,788**	**695,014**	2,222,680	605,140
Loans and advances measured at amortised cost	8	**32,665,962**	**8,893,537**	35,919,982	9,779,467
Islamic financing and investment products measured at amortised cost	9	**5,028,547**	**1,369,057**	5,290,904	1,440,486
Other financial assets measured at amortised cost	7	**7,181,593**	**1,955,239**	8,083,811	2,200,874
Interest receivable and other assets	10	**5,417,102**	**1,474,844**	4,986,426	1,357,589
Investment properties	11	**318,028**	**86,585**	172,320	46,915
Property and equipment	12	**1,197,827**	**326,117**	1,144,003	311,463
Total assets		**79,241,322**	**21,574,005**	84,845,803	23,099,864
LIABILITIES AND EQUITY					
Liabilities					
Deposits and balances due to banks	13	**7,223,370**	**1,966,613**	6,038,626	1,644,058
Repurchase agreements with banks	14	**2,505,165**	**682,049**	3,368,993	917,232
Customers' deposits	15	**40,177,020**	**10,938,475**	46,764,858	12,732,060
Islamic customers' deposits	16	**5,239,863**	**1,426,589**	4,488,815	1,222,111
Insurance and life assurance funds	17	**972,867**	**264,870**	896,587	244,102
Interest payable and other liabilities	18	**5,676,168**	**1,545,377**	4,990,584	1,358,722
Medium-term loans	19	**4,634,012**	**1,261,642**	5,903,034	1,607,142
Long-term loans	20	**9,007**	**2,452**	9,324	2,539
Total liabilities		**66,437,472**	**18,088,067**	72,460,821	19,727,966
Equity					
Capital and reserves					
Issued and paid up capital	21(a)	**1,690,770**	**460,324**	1,690,770	460,324
Statutory and legal reserves	21(b)	**846,745**	**230,532**	845,385	230,162
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Cumulative translation adjustment	21(d)	**(33,022)**	**(8,990)**	(19,483)	(5,304)
Investments revaluation reserve	21(e)	**(346,145)**	**(94,240)**	(284,120)	(77,354)
Retained earnings		**9,792,462**	**2,666,066**	9,300,191	2,532,042
Equity attributable to shareholders of the Parent		**12,262,810**	**3,338,636**	11,844,743	3,224,814
Non-controlling interests	22	**541,040**	**147,302**	540,239	147,084
Total equity		**12,803,850**	**3,485,938**	12,384,982	3,371,898
Total liabilities and equity		**79,241,322**	**21,574,005**	84,845,803	23,099,864

The accompanying notes form an integral part of these consolidated financial statements.

Abdulla Ahmad Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Consolidated Income Statement
for the year ended 31 December 2011

	Notes	2011 AED'000	2011 USD'000 Equivalent	2010 AED'000	2010 USD'000 Equivalent
Interest income	24	**3,135,446**	**853,647**	4,040,586	1,100,078
Income from Islamic financing and investment products	25	**252,762**	**68,816**	277,103	75,443
Total interest income and income from Islamic financing and investment products		**3,388,208**	**922,463**	4,317,689	1,175,521
Interest expense	26	**(1,334,303)**	**(363,273)**	(1,863,981)	(507,482)
Distribution to depositors – Islamic products	27	**(109,834)**	**(29,903)**	(162,566)	(44,260)
Net interest income and income from Islamic products net of distribution to Depositors		**1,944,071**	**529,287**	2,291,142	623,779
Fee and commission income	28	**1,940,984**	**528,447**	1,838,556	500,560
Fee and commission expenses	28	**(957,928)**	**(260,803)**	(726,086)	(197,682)
Net fee and commission income		**983,056**	**267,644**	1,112,470	302,878
Net investment income	29	**123,367**	**33,588**	48,094	13,094
Other income, net	30	**821,839**	**223,751**	935,168	254,606
Operating income		**3,872,333**	**1,054,270**	4,386,874	1,194,357
General and administrative expenses	31	**(1,793,683)**	**(488,343)**	(1,763,897)	(480,233)
Allowances for impairment	32	**(1,195,839)**	**(325,576)**	(1,767,390)	(481,184)
Profit before taxes		**882,811**	**240,351**	855,587	232,940
Overseas income tax expense		**(21,769)**	**(5,926)**	(18,985)	(5,169)
Profit for the year		**861,042**	**234,425**	836,602	227,771
Attributed to:					
Shareholders of the Parent		**820,379**	**223,354**	803,498	218,758
Non-controlling interests		**40,663**	**11,071**	33,104	9,013
		861,042	**234,425**	836,602	227,771
Earnings per share	33	**AED 4.85**	**USD 1.32**	AED 4.75	USD 1.29

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2011

	2011		2010	
	AED'000	**USD'000 Equivalent**	AED'000 Equivalent	USD'000
Profit for the year	**861,042**	**234,425**	836,602	227,771
Other comprehensive (loss)/income				
Changes in fair value of financial assets measured at fair value through other comprehensive income, net	**(80,501)**	**(21,918)**	(7,608)	(2,071)
Exchange difference arising on translating the foreign operations	**(11,531)**	**(3,140)**	5,535	1,507
Loss on hedging instruments designated in hedges of the net assets of foreign operations [Note 21(d)]	**(2,008)**	**(546)**	-	-
Total other comprehensive loss for the year	**(94,040)**	**(25,604)**	(2,073)	(564)
Total comprehensive income for the year	**767,002**	**208,821**	834,529	227,207
Attributed to:				
Shareholders of the Parent	**756,221**	**205,886**	813,072	221,365
Non-controlling interests	**10,781**	**2,935**	21,457	5,842
	767,002	**208,821**	834,529	227,207

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

	Issued and paid up capital	Statutory and legal reserves	General reserve	Cumulative translation adjustment	Investments revaluation reserve	Retained earnings	Equity attributable to shareholders of the Parent	Non-controlling interests	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 31 December 2009	1,610,257	805,129	312,000	(25,018)	(279,735)	8,850,576	11,273,209	574,283	11,847,492
Profit for the year	-	-	-	-	-	803,498	803,498	33,104	836,602
Other comprehensive income/(loss) for the year	-	-	-	5,535	4,039	-	9,574	(11,647)	(2,073)
Total comprehensive income for the year	-	-	-	5,535	4,039	803,498	813,072	21,457	834,529
Transfer from investment revaluation reserve to retained earnings		-	-		(8,424)	8,424	-		
Transfer to statutory and legal reserves	-	40,256	-	-	-	(40,256)	-	-	-
Payment of dividends	-	-	-	-	-	(241,538)	(241,538)	(55,501)	(297,039)
Bonus shares issued	80,513	-	-	-	-	(80,513)	-	-	-
Balance at 31 December 2010	1,690,770	845,385	312,000	(19,483)	(284,120)	9,300,191	11,844,743	540,239	12,384,982
Profit for the year	**-**	**-**	**-**	**-**	**-**	**820,379**	**820,379**	**40,663**	**861,042**
Other comprehensive loss for the year	**-**	**-**	**-**	**(13,539)**	**(50,619)**	**-**	**(64,158)**	**(29,882)**	**(94,040)**
Total comprehensive income for the year	**-**	**-**	**-**	**(13,539)**	**(50,619)**	**820,379**	**756,221**	**10,781**	**767,002**
Transfer from investment revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**(11,406)**	**11,406**	**-**	**-**	**-**
Transfer to statutory and legal reserves	**-**	**1,360**	**-**	**-**	**-**	**(1,360)**	**-**	**-**	**-**
Payment of dividends [Note 21 (f)]	**-**	**-**	**-**	**-**	**-**	**(338,154)**	**(338,154)**	**(8,400)**	**(346,554)**
Purchase of non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,580)**	**(1,580)**
Balance at 31 December 2011	**1,690,770**	**846,745**	**312,000**	**(33,022)**	**(346,145)**	**9,792,462**	**12,262,810**	**541,040**	**12,803,850**

The accompanying notes form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
for the year ended 31 December 2011

	2011		2010	
	AED'000	**USD'000 Equivalent**	AED'000	USD'000 Equivalent
Cash flows from operating activities				
Profit for the year	**861,042**	**234,425**	836,602	227,771
Adjustments for:				
Depreciation of property and equipment	**158,961**	**43,278**	143,008	38,935
Allowances for impairment	**1,195,839**	**325,576**	1,767,390	481,184
Gain on sale of property and equipment	**(15,824)**	**(4,308)**	(181,783)	(49,492)
Gain from redemption of medium term loans	**(31,859)**	**(8,674)**	(22,928)	(6,242)
Fair value adjustment of other financial assets measured at FVTPL	**13,189**	**3,591**	(1,072)	(292)
Fair value adjustments of investment property	**61,188**	**16,659**	61,329	16,697
Net realized investment gain from sale of other financial assets measured at FVTPL	**(7,373)**	**(2,007)**	(2,573)	(701)
Dividend income from financial assets measured at FVTOCI	**(43,056)**	**(11,722)**	(38,211)	(10,403)
Net realized investment (gain)/loss from sale of other financial assets measured at amortised cost	**(42,888)**	**(11,677)**	14,290	3,891
Loss on sale of loans and advances in a secondary market	**2,571**	**700**	55,722	15,171
Fair value adjustment - derivatives	**9,216**	**2,509**	(18,581)	(5,059)
Operating cash flow before changes in operating assets and liabilities	**2,161,006**	**588,350**	2,613,193	711,460
(Increase)/decrease in deposits with central banks for regulatory purposes	**(4,478,593)**	**(1,219,328)**	6,231,992	1,696,704
Decrease/(increase) in deposits and balances due from banks maturing after three months	**2,971,127**	**808,910**	(2,587,416)	(704,442)
Decrease in loans and advances measured at amortised cost	**2,276,477**	**619,787**	4,655,544	1,267,504
Decrease in Islamic financing and investment products measured at amortised cost	**231,377**	**62,994**	211,584	57,605
(Increase)/decrease in interest receivable and other assets	**(588,843)**	**(160,317)**	676,936	184,301
(Increase)/decrease in other financial assets carried at FVTPL	**(428,710)**	**(116,719)**	2,367	644
Decrease in repurchase agreements with banks	**(863,828)**	**(235,183)**	(4,160,775)	(1,132,800)
Decrease in customers' deposits	**(6,587,838)**	**(1,793,585)**	(4,031,910)	(1,097,716)
Increase in Islamic customers' deposits	**751,048**	**204,478**	1,627,796	443,179
Decrease in medium-term loans (not qualified as Tier 2 capital)	**(1,101,900)**	**(300,000)**	(1,193,725)	(325,000)
Decrease in long-term loans	**(317)**	**(86)**	(259)	(71)
Increase/(decrease) in deposits and balances due to banks	**1,184,744**	**322,555**	(1,872,042)	(509,677)
Increase/(decrease) in insurance and life assurance funds	**76,280**	**20,768**	38,000	10,346
Increase/(decrease) in interest payable and other liabilities	**685,584**	**186,655**	(639,176)	(174,020)
Net cash flows (used in)/generated by operating activities	**(3,712,386)**	**(1,010,721)**	1,572,109	428,017

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2011 (continued)

	2011		2010	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities				
Purchase of property and equipment	**(378,252)**	**(102,982)**	(409,442)	(111,473)
Proceeds from sale of property and equipment	**43,004**	**11,708**	208,581	56,788
Purchase of investment properties	**(93,105)**	**(25,348)**	-	-
Net decrease in other financial assets measured at amortized cost	**940,306**	**256,005**	1,243,761	338,623
Net decrease/(increase) in other financial assets measured atFVTOCI	**12,285**	**3,345**	(17,493)	(4,763)
Dividend income from other financial assets measured at FVTOCI	**43,056**	**11,722**	38,211	10,403
Purchase of non-controlling interest	**(1,580)**	**(430)**	-	-
Net cash generated by investing activities	**565,714**	**154,020**	1,063,618	289,578
Cash flows from financing activities				
Dividend paid	**(346,554)**	**(94,352)**	(297,039)	(80,871)
Decrease in medium term loans (qualified as Tier 2 capital)	**(135,263)**	**(36,826)**	(58,612)	(15,958)
Net cash used in financing activities	**(481,817)**	**(131,178)**	(355,651)	(96,829)
Net (decrease)/increase in cash and cash equivalents	**(3,628,489)**	**(987,879)**	2,280,076	620,766
Net foreign exchange difference	**(13,539)**	**(3,686)**	5,535	1,507
Cash and cash equivalents at 1 January	**14,427,686**	**3,928,036**	12,142,075	3,305,763
Cash and cash equivalents at 31 December (Note 35)	**10,785,658**	**2,936,471**	14,427,686	3,928,036

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

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 carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities 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 31 December 2011, 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	98.00	98.00	Finance
Oman Insurance Company (PSC)	United Arab Emirates	63.65	63.65	Insurance
Mindscape Information Technology L.L.C.	United Arab Emirates	99.00	99.00	Software/Application provider
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
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	*	100.00	Special purpose vehicle
Orriston Limited	British Virgin Islands	*	100.00	Special purpose vehicle

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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

2.1 Standards and Interpretations effective for the current year

The following new and revised standards and interpretations have been adopted in the current year with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in the income statement.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IAS 1; IAS 27 (2008); IAS34; and IFRIC 13.

2.2 Standards and Interpretations in issue but not yet effective

The Group has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

	Effective for annual periods beginning on or after
Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.	1 July 2011
IFRS 10 *Consolidated Financial Statements** uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 *Separate Financial Statements** and IAS 28 *Investments in Associates and Joint Ventures** have been amended for the issuance of IFRS 10.	1 January 2013
IFRS 11 *Joint Arrangements** establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities** combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.	1 January 2013

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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

2.2 Standards and Interpretations in issue but not yet effective (continued)

	Effective for annual periods beginning on or after
IFRS 13 *Fair Value Measurement* issued in May 2011, establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013
Amendments to IAS 1 – *Presentation of Other Comprehensive Income*. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be classified into those that will and will not subsequently be reclassified to the income statement	1 July 2012
Amendments to IAS 12 *Income Taxes* provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 *Investment Property* by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.	1 January 2012
Amendments to IAS 19 Employee Benefits eliminate the "corridor approach" and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
Amendments to IFRS 7 *Financial Instruments*: Disclosures enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
Amendments to IAS 32 *Financial Instruments*: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2013

* In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

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

3 Summary of significant accounting policies

3.1 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 impairment of loans and advances measured at amortised cost and calculation of the capital adequacy ratio.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.2 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 measured 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:

3.3 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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 the net assets (excluding goodwill) of consolidated 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 ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries 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. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). 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 a jointly controlled entity.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for other financial assets measured at fair value through profit and loss (FVTPL), are recognized within 'interest income' and 'interest expense' in the consolidated income statement using the effective interest method. Interest income from other financial assets measured at FVTPL is recognized within 'net investment income' in the consolidated income statement.

The effective interest method is a method of calculating the amortised 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. Recoveries in respect of loans and advances previously provided for are accounted for on a cash receipt basis.

Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in **Note 3.21** (iii).

Fee and commission income and expenses

Fee and commission income and expenses are accounted for on the date the transaction arises.

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 and insurance commission income

Premiums on general insurance policies are accounted for on the date of writing of 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 of policies and on subsequent due dates.

Insurance commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition (continued)

Gain or loss from redemption of medium term loans

Gain or loss from redemption of medium term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

Rental income

The Group's policy for recognition of revenue from operating leases is described in 3.5 below.

3.5 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.

3.6 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 Group'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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.6 Foreign currencies (continued)

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 year, unless exchange rates fluctuated significantly during that year, 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.

3.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, except for capital work-in-progress 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

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 losses. 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.8 Investment property

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

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

3.9 Impairment of tangible assets

At the 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 asset 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the consolidated income statement.

3.10 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
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated income statement.

3.11.1 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

<u>Classification of financial assets</u>

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'.

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

o the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

o the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

<u>Amortised cost and effective interest method</u>

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments (other than those financial assets designated as FVTPL) are measured subsequently at amortised cost. Interest income is recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments (continued)

3.11.1 Financial assets (continued)

Financial assets at fair value through other comprehensive income (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 of, 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 the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss (FVTPL)

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

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments (continued)

3.11.1 Financial assets (continued)

Financial assets at fair value through profit or loss (FVTPL) (continued)

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in **Note 42** to the consolidated financial statements.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the net gain or loss described above.

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 each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated income statement; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments (continued)

3.11.1 Financial assets (continued)

Impairment of financial assets (continued)

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

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 and due from banks, where the carrying amount is reduced through the use of an allowance account. When a loan is considered 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 recognised in the consolidated income statement.

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 recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group 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.

(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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments (continued)

3.11.1 Financial assets (continued)

Impairment of financial assets (continued)

(ii) Collectively assessed loans (continued)

(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 sometime 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 whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days. All loans that are past due by more than 180 days are written off.

Derecognition 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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

3.11.2 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments (continued)

3.11.2 Financial liabilities and equity instruments (continued)

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

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the consolidated income statement.

The effective interest method is a method of calculating the amortised 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.11 Financial instruments (continued)

3.11.2 Financial liabilities and equity instruments (continued)

Financial liabilities (continued)

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

3.12 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.

3.13 Derivative financial instruments

The Group deals with derivatives 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).

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated income statement immediately. 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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.14 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

(Note 42) sets out details of the fair values of the derivative instruments used for hedging purposes.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.14 Hedge accounting (continued)

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidate income statement from that date.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated income statement on the disposal of the foreign operation.

3.15 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 consolidated income statement 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 reporting date and settlements and provisions for the following year is included in the underwriting account for that year.

3.16 Insurance liability adequacy test

At the end of each reporting period, insurance liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the consolidated income statement establishing a provision for losses arising from liability adequacy tests.

3.17 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. Premiums and claims are presented on a net basis for both ceded and assumed reinsurance.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.18 Life assurance fund

The fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to the consolidated income statement.

3.19 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the consolidated income statement.

3.20 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.

3.21 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:

(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 lesser, 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.21 Islamic financing and investment products (continued)

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 amortised 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 products when their recovery is in doubt taking into consideration IFRS requirements (as explained in **Note 3.11.1**). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.21 Islamic financing and investment products (continued)

Mudaraba

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

(iv) 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 amortised 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.

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 amortised cost

The Group's accounting policy for allowances in relation to impaired financial assets carried at amortised cost is described in Note 3. 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 a 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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

(i) Impairment of financial assets measured at amortised cost (continued)

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 UAE.

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 is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. All loans that are past due by more than 180 days are written off.

(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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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

(i) Impairment of financial assets measured at amortised cost (continued)

(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. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(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.

(v) Investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

(vi) The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is one of the Group's most critical accounting estimates. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

(vii) Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Group's investments in securities are appropriately classified and measured.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks as at 31 December is as follows:

	2011	2010
	AED'000	AED'000
Cash on hand	**491,159**	614,965
Balances with central banks:		
Current accounts and other balances	**1,957,226**	4,953,935
Statutory deposits	**3,007,415**	2,462,822
Certificates of deposit	**9,276,000**	5,342,000
	14,731,800	13,373,722

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2011	2010
	AED'000	AED'000
Balances within the U.A.E.	**13,004,314**	8,522,334
Balances outside the U.A.E.	**1,727,486**	4,851,388
	14,731,800	13,373,722

(c) The Group 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 on hand and current accounts and other balances are not interest-bearing. Certificate of deposits are interest-bearing.

(d) As of 31 December 2011 AED 367.3 million (2010: AED nil) of the above certificates of deposit provided as collateral for Central Bank of the U.A.E. under repurchase agreements "Repos" **(Note 14)**

6 Deposits and balances due from banks

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

	2011	2010
	AED'000	AED'000
Demand	**2,328,251**	1,827,938
Overnight	**1,188,494**	212,525
Time	**7,218,623**	12,146,250
	10,735,368	14,186,713
Less: Allowance for impairment	**(587,693)**	(534,758)
	10,147,675	13,651,955

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

6 Deposits and balances due from banks (continued)

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

	2011	2010
	AED'000	AED'000
Banks within the U.A.E.	**2,737,258**	5,765,209
Banks outside the U.A.E.	**7,998,110**	8,421,504
	10,735,368	14,186,713
Less: Allowance for impairment	**(587,693)**	(534,758)
	10,147,675	13,651,955

(c) Allowance for impairment movement

	2011	2010
	AED'000	AED'000
At 1 January	**534,758**	480,137
Charged during the year	**11,640**	53,372
Interest in suspense	**41,295**	37,056
Written off during the year	**-**	(35,807)
At 31 December	**587,693**	534,758

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

	2011	2010
	AED'000	AED'000
Other financial assets measured at fair value		
(i) Investments measured at fair value through profit and loss (FVTPL)		
Debt securities		
Corporate bonds and Treasury bills	**520,422**	341,511
Sukuk	**19,587**	21,302
	540,009	362,813
Equities		
Quoted	**39,699**	117,072
Unquoted	**652**	678
	40,351	117,750
Mutual and other funds	**433,664**	110,567
	1,014,024	591,130
(ii) Investments measured at fair value through other comprehensive income (FVTOCI)		
Equities		
Quoted	**871,772**	925,947
Unquoted	**390,794**	436,589
	1,262,566	1,362,536
Mutual and other funds	**276,198**	269,014
	1,538,764	1,631,550
Total other financial assets measured at fair value (A)	**2,552,788**	2,222,680
(iii) Other financial assets measured at amortised cost		
Debt securities		
Bonds	**4,951,842**	4,944,056
Sukuk	**2,229,751**	3,139,755
Total other financial assets measured at amortised cost (B)	**7,181,593**	8,083,811
Total other financial assets [(A) +(B)]	**9,734,381**	10,306,491

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

7 Other financial assets (continued)

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

	2011	2010
	AED'000	AED'000
Balances within the U.A.E.	**6,051,962**	7,556,238
Balances outside the U.A.E.	**3,682,419**	2,750,253
	9,734,381	10,306,491

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

	2011	2010
	AED'000	AED'000
Government and Public Sector	**3,758,068**	3,400,307
Commercial and Business	**548,762**	699,912
Financial Institutions	**4,968,161**	5,394,774
Other	**459,390**	811,498
	9,734,381	**10,306,491**

(d) The fair value of other financial assets measured at amortised cost amounted to AED 6,851.66 million as of 31 December 2011 (2010: AED 7,755.23 million).

(e) The above other financial assets include debt securities aggregating to AED 3,095.74 million (2010: AED 4,691.47 million) which were sold under repurchase agreement (Repos) **(Note 14).**

(f) Other financial assets measured at FVTOCI are strategic investments in equity instruments 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 instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

(g) Other financial assets measured at FVTOCI includes AED 218.21 million (2010: AED 214.54 million) which represents investments in Emerging Markets Credit Opportunities Fund, Makaseb Income Fund, Mashreq Al Islami Income Fund, MCF Series and Mashreq Arab Tigers Fund. These funds are managed by the Group and have no fixed maturity or coupon rate. The fair value of these investments is based on quoted market prices.

(h) As of 31 December 2011, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the year ended 31 December 2011, dividends received from financial assets measured at FVTOCI amounting to AED 43.06 million (2010: AED 38.21 million) were recognized as investment income in the consolidated income statement **(Note 29).**

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

8 Loans and advances measured at amortised cost

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

	2011	2010
	AED'000	AED'000
Loans	**29,577,932**	31,511,847
Overdrafts	**4,037,985**	5,566,230
Credit cards	**1,482,708**	1,764,167
Other	**161,743**	177,452
	35,260,368	39,019,696
Less: Allowance for impairment	**(2,594,406)**	(3,099,714)
	32,665,962	35,919,982

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

	2011	2010
	AED'000	AED'000
Manufacturing	**2,805,029**	1,873,389
Construction	**2,566,833**	3,522,034
Trade	**6,479,620**	6,361,922
Transport and communication	**1,092,463**	1,446,582
Services	**4,624,304**	4,263,202
Financial institutions	**2,823,938**	2,934,528
Personal	**9,442,197**	10,377,708
Government and public sector	**5,383,134**	8,184,883
Other	**42,850**	55,448
	35,260,368	39,019,696
Less: Allowance for impairment	**(2,594,406)**	(3,099,714)
	32,665,962	35,919,982

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

8 Loans and advances measured at amortised cost (continued)

(c) As at 31 December 2011, AED Nil (2010: AED 756.49 million) of the above balances was sold under repurchase agreement (Repos) **(Note 15).**

(d) 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 consolidated income statement, including fully provided accounts, amounted to AED 4,861.94 million at 31 December 2011 (2010: AED 3,774.52 million).

(e) The movement in the allowance for impairment of loans and advances measured at amortised cost during the year was as follows:

	2011	2010
	AED'000	AED'000
At 1 January	**3,099,714**	1,947,274
Impairment allowance for the year	**640,286**	928,974
Interest in suspense	**220,476**	274,060
Recoveries during the year	**(50,715)**	(50,594)
Written off during the year	**(1,315,355)**	-
At 31 December	**2,594,406**	3,099,714

(f) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

9 Islamic financing and investment products measured at amortised cost

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

	2011	2010
	AED'000	AED'000
Financing		
Murabaha	**2,614,266**	1,971,632
Ijara	**1,417,406**	2,234,472
	4,031,672	4,206,104
Investment		
Musharakah	**807,876**	919,329
Mudaraba	**363,230**	320,106
	1,171,106	1,239,435
	5,202,778	5,445,539
Less: Unearned income	**(108,940)**	(18,542)
Allowance for impairment	**(65,291)**	(136,093)
	5,028,547	5,290,904

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

	2011	2010
	AED'000	AED'000
Government and public sector	**1,211,744**	1,866,707
Construction	**1,228,353**	1,492,325
Services	**1,312,529**	1,312,940
Financial institutions	**257,361**	350,816
Personal	**923,281**	352,736
Transport and communication	**9,016**	38,321
Trade	**172,738**	10,555
Other	**87,756**	21,139
Total	**5,202,778**	5,445,539
Less: Unearned income	**(108,940)**	(18,542)
Allowance for impairment	**(65,291)**	(136,093)
	5,028,547	5,290,904

(c) The value of Islamic financing and investment products on which profit is not taken to consolidated income statement, including fully provided accounts, amounted to AED 239.97 million as at 31 December 2011 (2010: AED 174.96 million).

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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

(d) Allowance for impairment movement

	2011	2010
	AED'000	AED'000
At 1 January	**136,093**	52,560
Charged during the year	**30,980**	69,205
Profit in suspense	**1,916**	14,328
Written off during the year	**(103,698)**	-
At 31 December	**65,291**	136,093

(e) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

(f) As of 31 December 2011, AED Nil (2010: AED 285.5 million) of the above balances was sold under repurchase agreement (Repos) **(Note16)**.

10 Interest receivable and other assets

	2011	2010
	AED'000	AED'000
Interest receivable	**139,394**	147,391
Property acquired in settlement of debts**	**230,508**	230,683
Prepayments	**82,209**	69,133
Acceptances*	**2,334,057**	1,883,478
Positive fair value of derivatives **(Note 40)**	**1,415,577**	1,117,578
Insurance related receivables	**979,427**	971,111
Credit card interchange receivables	**37,654**	31,771
Taxes paid in advance	**20,753**	20,398
Other	**177,523**	514,883
	5,417,102	4,986,426

* Acceptances are recognized as a financial liability **(Note 18)** in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

** As of 31 December 2011, property acquired in settlement of debts includes land with a carrying amount of AED 227 million which is registered in the name of the Group's Chief Executive Officer on trust and for the benefit of the Group.

11 Investment properties

	2011	2010
	AED'000	AED'000
At fair value		
At 1 January	**172,320**	233,649
Purchases	**93,105**	-
Transfers from other assets	**113,791**	-
Change in fair value during the year **(Note 30)**	**(61,188)**	(61,329)
At 31 December	**318,028**	172,320

The fair value of investment properties for the Group's subsidiaries Osool - A Finance Company (PJSC) (AED 2.25 million) and Oman Insurance Company (PSC) (AED 315.78 million) as of 31 December 2011 has been arrived at on the basis of a valuation carried out in December 2011 by independent professionally qualified valuers. The valuation, which conforms to international valuation standards, was arrived at by the reference to market comparable evidence of transaction prices for similar properties.

All of the Group's investment properties are held under free hold interest and located in the U.A.E.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

12 Property and equipment

	Properties for own use	Furniture, fixtures, equipments & vehicles	Improvements to freehold properties and others	Capital work-in-progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
31 December 2009	637,934	348,916	312,691	41,458	1,340,999
Additions	272,269	47,034	61,403	28,736	409,442
Disposals/write-offs	(71,643)	(17,555)	(52,569)	(690)	(142,457)
Transfers	-	5,382	(39)	(5,343)	-
31 December 2010	**838,560**	**383,777**	**321,486**	**64,161**	**1,607,984**
Additions	**180,560**	**68,301**	**124,055**	**5,336**	**378,252**
Disposals/write-offs	**(8,964)**	**(57,462)**	**(56,634)**	**(4,556)**	**(127,616)**
Transfers	**46,419**	**7,020**	**14**	**(53,453)**	**-**
31 December 2011	**1,056,575**	**401,636**	**388,921**	**11,488**	**1,858,620**
Accumulated depreciation and impairment					
31 December 2009	99,536	136,849	126,637	-	363,022
Charge for the year	14,536	65,425	63,047	-	143,008
Disposals/write-offs	(63,791)	(14,463)	(46,795)	-	(125,049)
Impairment of property and equipment **(Note 32)**	83,000	-	-	-	83,000
31 December 2010	**133,281**	**187,811**	**142,889**	**-**	**463,981**
Charge for the year	**17,202**	**68,811**	**72,948**	**-**	**158,961**
Disposals/write-offs	**(5,518)**	**(42,380)**	**(52,538)**	**-**	**(100,436)**
Impairment of property and equipment **(Note 32)**	138,287	-	-	-	138,287
31 December 2011	**283,252**	**214,242**	**163,299**	**-**	**660,793**
Carrying amount					
31 December 2011	**773,323**	**187,394**	**225,622**	**11,488**	**1,197,827**
31 December 2010	705,279	195,966	178,597	64,161	1,144,003

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

13 Deposits and balances due to banks

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

	2011	2010
	AED'000	AED'000
Time	**5,663,231**	4,477,913
Demand	**1,082,654**	1,130,926
Overnight	**477,485**	429,787
	7,223,370	6,038,626

(b) The above represent borrowings from:

	2011	2010
	AED'000	AED'000
Banks within the U.A.E.	**2,451,347**	1,434,782
Banks outside the U.A.E.	**4,772,023**	4,603,844
	7,223,370	6,038,626

(c) Deposits and balances due to banks abroad include an amount of AED 1,836.50 million (USD 500 million) (2010: AED 1,836.50 million (USD 500 million)) being a 5 years syndicated 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

14 Repurchase agreements with banks

Tenure	Due date	Interest rate	2011 AED'000	2010 AED'000
6 months	January 2012	1.20% per annum	**483,824**	-
1 month	January 2012	1.20% per annum	**23,203**	-
1 month	January 2012	1.50% per annum	**284,430**	-
1 month	January 2012	1.50% per annum	**187,197**	-
1 month	January 2012	0.50% per annum	**8,207**	-
1 month	January 2012	0.45% per annum	**11,155**	-
1 month	January 2012	0.50% per annum	**11,875**	-
1 month	January 2012	0.70% per annum	**367,300***	-
1 month	January 2012	1.50% per annum	**739,000***	-
3 months	February 2012	1.64% per annum	**388,974**	-
1 month	January 2011	1.27% per annum	-	257,026
3 months	January 2011	2.30% per annum	-	1,488,630
1 month	January 2011	1.25% per annum	-	48,623
1 month	January 2011	1.50% per annum	-	907,000*
3 months	March 2011	0.70% per annum	-	23,090
3 months	March 2011	0.80% per annum	-	517,538
1 year	October 2011	3 months USD Libor	-	127,086
			2,505,165	3,368,993

*Amount represents repurchase agreements with the U.A.E. Central Bank.

Collateral given against these repo borrowings is disclosed in **Notes 5 and 7** to the consolidated financial statements.

15 Customers' deposits

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

	2011 AED'000	2010 AED'000
Current and other accounts	**14,125,443**	11,637,824
Saving accounts	**3,127,472**	2,308,704
Time deposits	**22,924,105**	32,818,330
	40,177,020	46,764,858

(b) As at 31 December 2011, customers' deposits include AED Nil (2010: AED 416 million) under repurchase borrowing agreements (Repo) with customers. Collateral given against these repo borrowings is disclosed in **Note 8** to the consolidated financial statements.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

15 Customers' deposits (continued)

(c) Analysis by industry sector:

	2011	2010
	AED'000	AED'000
Government and public sector	**4,960,330**	9,981,839
Commercial and business	**22,234,986**	20,865,352
Personal	**10,725,104**	12,882,886
Financial institutions	**2,184,264**	2,203,579
Other	**72,336**	831,202
	40,177,020	46,764,858

16 Islamic customers' deposits

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

	2011	2010
	AED'000	AED'000
Current and other accounts	**375,724**	337,146
Saving accounts	**189,705**	17,461
Time deposits	**4,674,434**	4,134,208
	5,239,863	4,488,815

(b) As at 31 December 2011, customer deposits include AED Nil (2010: AED 161 million) repurchase borrowing agreements (Repo) with customers. Collateral given against these repo borrowings is disclosed in **Note 9** to the consolidated financial statements.

(c) Analysis by industry sector:

	2011	2010
	AED'000	AED'000
Government and public sector	**278,542**	3,198
Commercial and business	**4,212,088**	3,951,447
Personal	**737,756**	519,026
Financial institutions	**9,024**	15,144
Other	**2,453**	-
	5,239,863	4,488,815

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

17 Insurance and life assurance funds

	Outstanding claims	Unearned premium reserve	Additional reserve	Life assurance fund	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2010	239,006	419,215	92,413	107,953	858,587
Increase/(decrease)	41,114	(29,681)	8,000	18,567	38,000
At 31 December 2010	280,120	389,534	100,413	126,520	896,587
Increase/(decrease)	**23,805**	**(43,464)**	**28,554**	**67,385**	**76,280**
At 31 December 2011	**303,925**	**346,070**	**128,967**	**193,905**	**972,867**

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

	2011	2010
	AED'000	AED'000
Interest payable	**169,173**	295,809
Negative fair value of derivatives **(Note 40)**	**1,382,807**	1,094,956
Acceptances*	**2,334,057**	1,883,478
Insurance premium collected in advance	**457,691**	401,523
Accrued expenses	**432,002**	511,713
Income received in advance – discounted bills	**84,563**	68,349
Pay orders issued	**139,353**	107,289
Provision for employees' end of service indemnity**	**147,991**	145,241
Credit card related	**103,362**	61,834
Provision for taxation	**25,225**	25,792
Other	**399,944**	394,600
	5,676,168	4,990,584

* Acceptances are recognized as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset **(Note 10)**.

** Provision for employees' end of service indemnity is made for estimated amounts required to cover employees' end of service indemnity at the reporting 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
for the year ended 31 December 2011 (continued)

19 Medium-term loans

	2011	2010
	AED'000	AED'000
Tier 2 loan from the Ministry of Finance of the U.A.E.	**3,443,593**	3,443,593
Medium term floating rate notes	**1,190,419**	2,459,441
	4,634,012	5,903,034

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

The Tier 2 loan from the Ministry of Finance of the U.A.E. will mature in 2016 and qualifies for Tier 2 subordinated loan capital for the first 2 years and thereafter it is amortised at the rate of 20% per annum for the last five years until its maturity on 31 December 2016 for capital adequacy calculation purposes.

Interest is paid every three months and calculated at a rate of 4.00% for the first and second year, 4.50% for the third year, 5.00% for the fourth year and 5.25% for the last three years.

(b) Medium term floating rate notes

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

		2011	2010
Due date	**Interest rate**	**AED'000**	AED'000
6 April 2011	3 months Libor + 0.380%	-	1,101,900
24 January 2017	3 months Libor + 0.625%	**1,190,419**	1,357,541
		1,190,419	2,459,441

During 2004, the Bank established a Euro Medium Term Note (EMTN) programme for USD 750 million (AED 2,754 million) under fiscal agency agreement dated 4 February 2004. The EMTN programme was increased to USD 2,000 million (AED 7,346 million) under fiscal agency agreement dated 21 March 2006. On 15 March 2010, the EMTN programme limit was further increased to USD 5,000 million (AED 18,365 million).

AED 1.19 billion is a subordinated floating rate note ("FRN") and qualifies for Tier 2 subordinated loan capital for the first 5 years till 2012 and therafter it will be amortised at the rate of 20% per annum for next five years until 2017 for capital adequacy calculation purposes. However, the FRN is callable in 5 years (i.e. in 2012 if not redeemed on completion of 5 years, there is provision of step up in coupon rate by 0.5% for next 5 years). This subordinated FRN has been approved by U.A.E. Central Bank as Tier 2 capital.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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 amortised cost.

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As of 31 December 2011, 169,076,975 ordinary shares of AED 10 each (31 December 2010: 169,076,975 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of U.A.E., 10% of the profit 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 and paid up 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) Cumulative translation adjustment

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in other comprehensive income and accumulated in the cumulative translation adjustment reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the cumulative translation adjustment reserve. Exchange differences previously accumulated in the cumulative translation adjustment reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated income statements on the disposal of the foreign operation.

(e) Investments revaluation reserve

Investment revaluation reserve shows the effects from the fair value measurement of other financial assets measured at FVTOCI.

(f) Dividends on equity instruments

During the year ended 31 December 2011, a proposed 20% cash dividend amounting to AED 338.15 million was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting held on 6 March 2011.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

22 Non-controlling interests

	2011	2010
	AED'000	AED'000
At 1 January	**540,239**	574,283
Dividends paid	**(8,400)**	(55,501)
Changes in fair value of financial assets measured at fair value through other comprehensive income, net	**10,781**	21,457
Purchase of non-controlling interests	**(1,580)**	-
At 31 December	**541,040**	540,239

23 Contra accounts and commitments

(a) The analysis of the Group's contra accounts and commitments is as follows:

	2011	2010
	AED'000	AED'000
(i) **Contra accounts (memoranda)**		
Guarantees	**38,335,059**	36,942,725
Letters of credit	**6,279,121**	4,185,968
	44,614,180	41,128,693
(ii) Commitments for acquisition of property and equipment	**45,965**	141,384
(iii) Operating lease commitments	**67,283**	76,516
Total contra accounts and commitments	**44,727,428**	41,346,593

(b) Outstanding granted but unutilised facilities as at 31 December 2011 amounted to AED 115,707 million (2010: AED 53,061 million).

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

23 Contra accounts and commitments (continued)

(c) Contra accounts – maturity profile

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

	2011					
	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	**14,026,686**	**2,018,797**	**2,327,120**	**6,617,369**	**13,345,087**	**38,335,059**
Letters of credit	**3,830,823**	**871,959**	**957,490**	**618,849**	**-**	**6,279,121**
	17,857,509	**2,890,756**	**3,284,610**	**7,236,218**	**13,345,087**	**44,614,180**

	2010					
	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	15,222,045	1,627,878	2,111,036	5,884,359	12,097,407	36,942,725
Letters of credit	2,341,926	376,044	648,404	819,594	-	4,185,968
	17,563,971	2,003,922	2,759,440	6,703,953	12,097,407	41,128,693

The analysis of commitments and contingencies by geographic region and industry sector is shown in **Note 37** to the consolidated financial statements.

(d) Operating lease commitments

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

	2011	2010
	AED'000	AED'000
Less than 1 year	**37,164**	37,113
1 to 5 years	**28,186**	37,080
Over 5 years	**1,933**	2,323
	67,283	76,516

24 Interest income

	2011	2010
	AED'000	AED'000
Loans and advances	**2,441,091**	3,180,830
Banks	**344,854**	425,404
Other financial assets	**284,793**	312,292
Central Bank of the U.A.E.	**64,708**	122,060
	3,135,446	4,040,586

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

25 Income from Islamic financing and investment products

	2011	2010
	AED'000	AED'000
Financing		
Murabaha	**104,008**	102,295
Ijara	**66,288**	85,496
Others	**29,624**	32,232
	199,920	220,023
Investment		
Mushakara	**43,838**	47,599
Mudaraba	**8,923**	9,275
Wakala	**81**	206
	52,842	57,080
	252,762	277,103

26 Interest expense

	2011	2010
	AED'000	AED'000
Customers' deposits	**786,814**	1,265,077
Deposits and balances due to central banks	**14,196**	40,807
Deposits and balances due to other banks	**377,901**	395,113
Medium-term loans	**155,392**	162,984
	1,334,303	1,863,981

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
for the year ended 31 December 2011 (continued)

28 Net fee and commission income

	2011	2010
	AED'000	AED'000
Fee and commission income		
Commission income	**811,084**	560,096
Brokerage and asset management	**9,359**	8,421
Insurance commission	**141,558**	138,569
Fees and charges on banking services	**345,301**	444,650
Credit Card related fee	**577,093**	622,367
Others	**56,589**	64,453
Total fee and commission income	**1,940,984**	1,838,556
Fee and commission expenses		
Commission expense	**(340,361)**	(100,353)
Brokerage and asset management	**(277)**	(219)
Insurance commission	**(218,645)**	(260,748)
Credit Card related expenses	**(372,524)**	(345,744)
Others	**(26,121)**	(19,022)
Total fee and commission expenses	**(957,928)**	(726,086)
Net fee and commission income	**983,056**	1,112,470

29 Net investment income

	2011	2010
	AED'000	AED'000
Net realized investment gain from sale of other financial assets measured at FVTPL	**7,373**	2,573
Fair value adjustments of other financial assets measured at FVTPL	**(13,189)**	1,072
Interest income from debt securities at FVTPL	**41,801**	19,877
Dividends income from other financial assets measured at FVTPL	**1,438**	651
Net realized investment gain/(loss) from sale of other financial assets measured at amortised cost	**42,888**	(14,290)
Dividend income from financial assets measured at FVTOCI	**43,056**	38,211
	123,367	48,094

30 Other income, net

	2011	2010
	AED'000	AED'000
Fair value adjustments of investment properties **(Note 11)**	**(61,188)**	(61,329)
Foreign exchange gains, net	**204,754**	161,672
Insurance and other related income **[Note 30(a)]**	**594,681**	563,067
Gain on sale of property and equipment	**15,824**	181,783
Rental income from properties	**7,484**	4,548
Fair value adjustment – derivatives	**(9,216)**	18,581
Gain from redemption of medium-term loans	**31,859**	22,928
Loss on sale of loans and advances in a secondary market	**(2,571)**	(55,722)
Other	**40,212**	99,640
	821,839	935,168

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

30 Other income, net (continued)

(a) Insurance and other related income

	2011	2010
	AED'000	AED'000
Net insurance premium revenue	**1,236,137**	1,291,781
Net claims incurred	**(562,734)**	(629,857)
	673,403	661,924
Excess of loss reinsurance premium	**(44,191)**	(60,643)
Policies surrendered and maturities paid	**(25,925)**	(29,169)
Insurance business fees	**(8,606)**	(9,045)
	594,681	563,067

31 General and administrative expenses

	2011	2010
	AED'000	AED'000
Salaries and employees related expenses	**987,671**	962,917
Depreciation on property and equipment **(Note 12)**	**158,961**	143,008
Other	**647,051**	657,972
	1,793,683	1,763,897

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

32 Allowances for impairment

	2011			
	Retail	Corporate and others	Collective Impairment	Total
	AED'000	AED'000	AED'000	AED'000
Allowance for impaired loans and advances	**169,477**	**386,961**	**83,848**	**640,286**
Allowance for impaired balances due from banks	**-**	**11,640**	**-**	**11,640**
Impairment of other financial assets measured at amortised cost	**-**	**4,800**	**-**	**4,800**
Allowance for other debtors	**-**	**35,160**	**-**	**35,160**
Allowance for Islamic assets	**16,616**	**12,164**	**2,200**	**30,980**
Write-off of impaired loans and advances	**493,617**	**-**	**-**	**493,617**
Impairment of property and equipment (Note 12)	**-**	**138,287**	**-**	**138,287**
Recovery of impaired loans and advances	**-**	**(50,715)**	**-**	**(50,715)**
Recovery of loans and advances previously written off	**(76,604)**	**(31,612)**	**-**	**(108,216)**
	603,106	**506,685**	**86,048**	**1,195,839**

	2010			
	Retail	Corporate and others	Collective Impairment	Total
	AED'000	AED'000	AED'000	AED'000
Allowance for impaired loans and advances	55,164	708,474	165,336	928,974
Allowance for impaired balances due from banks	-	53,372	-	53,372
Impairment of other financial assets measured at amortised cost	-	20,034	-	20,034
Allowance for other debtors	-	14,604	-	14,604
Allowance for Islamic assets	12,041	52,664	4,500	69,205
Write-off of impaired loans and advances	746,098	5,979	-	752,077
Impairment of property and equipment **(Note 12)**	-	83,000	-	83,000
Recovery of impaired loans and advances	-	(50,594)	-	(50,594)
Recovery of loans and advances previously written off	(81,590)	(21,692)	-	(103,282)
	731,713	865,841	169,836	1,767,390

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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:

	2011	2010
	AED'000	AED'000
Profit for the year (AED'000) (Attributed to shareholders of the parent)	**820,379**	803,498
Number of ordinary shares outstanding	**169,076,975**	169,076,975
Earnings per share (AED)	**4.85**	4.75
Diluted earnings per share (AED)	**4.85**	4.75

34 Proposed dividends

The Board of Directors has proposed 20% cash dividend at their meeting held on 1 February 2012.

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:

	2011	2010
	AED'000	AED'000
Cash on hand	**491,159**	614,965
Balances with central banks: Current accounts and other balances	**1,957,226**	4,953,935
Deposits and balances due from banks maturing within 3 months	**8,337,273**	8,858,786
	10,785,658	14,427,686

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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 issued and paid up capital. The remaining shares are widely held.

(c) Related party balances included in the consolidated statement of financial position are as follows:

	2011	2010
	AED'000	AED'000
Loans and advances measured at amortised cost	**2,199,530**	2,197,299
Customers' deposits	**980,263**	1,144,987
Letters of credit and guarantee	**2,023,979**	2,284,953

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

	2011	2010
	AED'000	AED'000
Interest income	**126,120**	138,114
Interest expense	**18,639**	46,895
Other income, net	**105,214**	72,653

(e) Compensation of key management comprises salaries, bonuses and other benefits amounting in total to AED 64.41 million (2010: AED 59.26 million).

37 Concentrations of assets, liabilities and off balance sheet items

(a) Geographic regions

	2011			2010		
	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.	**55,629,687**	**50,205,351**	**32,554,579**	60,557,551	56,938,923	30,663,824
Other Middle East Countries	**13,651,395**	**9,488,602**	**5,602,383**	17,040,556	7,332,294	3,774,371
O.E.C.D.	**6,911,906**	**5,139,391**	**3,358,309**	5,463,396	6,726,174	3,309,285
Other	**3,048,334**	**1,604,128**	**3,098,909**	1,784,300	1,463,430	3,381,213
	79,241,322	**66,437,472**	**44,614,180**	84,845,803	72,460,821	41,128,693

(b) Industry Sector

	2011			2010		
	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	**10,161,488**	**8,728,419**	**-**	13,191,531	13,396,561	-
Commercial & Business	**21,745,271**	**28,819,468**	**30,890,007**	20,310,792	27,588,803	27,137,162
Personal	**9,583,113**	**11,842,460**	**912,153**	10,282,269	13,522,758	11,615
Financial Institutions	**33,948,127**	**14,193,948**	**12,769,062**	36,591,634	15,910,867	13,050,194
Other	**3,803,323**	**2,853,177**	**42,958**	4,469,577	2,041,832	929,722
	79,241,322	**66,437,472**	**44,614,180**	84,845,803	72,460,821	41,128,693

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

38 Segmental information

Reportable segments

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.

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 the 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, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijara Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, WakalaDeposit, 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.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in **Note 3** to the consolidated financial statements. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and overseas tax expenses. 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 for the year ended 31 December 2011 (continued)

38 Segmental information (continued)

Reportable segments (continued)

	2011							
	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	720,560	846,652	(89,538)	225,240	142,927	6,725	91,505	1,944,071
Other income, net	402,959	332,914	293,613	299,861	48,274	485,409	65,232	1,928,262
Total operating income	1,123,519	1,179,566	204,075	525,101	191,201	492,134	156,737	3,872,333
General and administrative expenses								(1,793,683)
Allowances for impairment								(1,195,839)
Profit before taxes								882,811
Overseas income tax expense								(21,769)
Profit for the year								861,042
Attributed to:								
Shareholders of the Parent								820,379
Non-controlling interests								40,663
								861,042
Segment Assets	18,986,258	7,168,489	22,384,443	14,420,975	5,951,210	3,278,274	7,051,673	79,241,322
Segment Liabilities	23,582,382	8,792,900	11,209,000	11,478,905	5,280,891	1,882,036	4,211,358	66,437,472

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

38 Segmental information (continued)

Reportable segments (continued)

	2010							
	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	684,223	1,050,596	4,353	199,183	114,537	26,807	211,443	2,291,142
Other income, net	385,400	516,077	244,285	274,738	40,953	404,227	230,052	2,095,732
Total operating income	1,069,623	1,566,673	248,638	473,921	155,490	431,034	441,495	4,386,874
General and administrative expenses								(1,763,897)
Allowances for impairment								(1,767,390)
Profit before taxes								855,587
Overseas income tax expense								(18,985)
Profit for the year								836,602
Attributed to:								
Shareholders of the Parent								803,498
Non-controlling interests								33,104
								836,602
Segment Assets	20,051,692	9,149,994	24,880,979	14,748,296	6,203,239	3,542,003	6,269,600	84,845,803
Segment Liabilities	30,351,066	9,367,700	13,226,200	8,489,066	4,509,800	2,101,456	4,415,533	72,460,821

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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 **	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
U.A.E.	**3,522,812**	4,044,988	**1,448,165**	1,240,549
Other Middle East countries	**231,788**	253,304	**62,245**	72,563
O.E.C.D.	**81,123**	60,911	**4,367**	2,664
Other countries	**36,610**	27,671	**1,078**	547
	3,872,333	4,386,874	**1,515,855**	1,316,323

* 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

Revenue from major products and services are disclosed in **Notes 24, 25, 28, 29 and 30** in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2011 and 2010.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

39 Classification of financial assets and liabilities

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

	FVTPL	FVTOCI	Amortised cost	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets:				
Cash and balances with central banks	-	-	14,731,800	14,731,800
Deposits and balances due from banks	-	-	10,147,675	10,147,675
Other financial assets measured at fair value	1,014,024	1,538,764	-	2,552,788
Loans and advances measured at amortised cost	-	-	32,665,962	32,665,962
Islamic financing and investment products measured at amortised cost	-	-	5,028,547	5,028,547
Other financial assets measured at amortised cost	-	-	7,181,593	7,181,593
Interest receivable and other assets	1,415,577	-	3,668,055	5,083,632
	2,429,601	1,538,764	73,423,632	77,391,997
Financial liabilities:				
Deposits and balances due to banks	-	-	7,223,370	7,223,370
Repurchase agreements with banks	-	-	2,505,165	2,505,165
Customers' deposits	-	-	40,177,020	40,177,020
Islamic customers' deposits	-	-	5,239,863	5,239,863
Interest payable and other liabilities	1,382,807	-	3,577,891	4,960,698
Medium-term loans	-	-	4,634,012	4,634,012
Long-term loans	-	-	9,007	9,007
	1,382,807	-	63,366,328	64,749,135

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

39 Classification of financial assets and liabilities (continued)

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

	FVTPL	FVTOCI	Amortised cost	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets:				
Cash and balances with central banks	-	-	13,373,722	13,373,722
Deposits and balances due from banks	-	-	13,651,955	13,651,955
Other financial assets measured at fair value	591,130	1,631,550	-	2,222,680
Loans and advances measured at amortised cost	-	-	35,919,982	35,919,982
Islamic financing and investment products measured at amortised cost	-	-	5,290,904	5,290,904
Other financial assets measured at amortised cost	-	-	8,083,811	8,083,811
Interest receivable and other assets	1,117,578	-	3,548,634	4,666,212
Total	1,708,708	1,631,550	79,869,008	83,209,266
Financial liabilities:				
Deposits and balances due to banks	-	-	6,038,626	6,038,626
Repurchase agreements with banks	-	-	3,368,993	3,368,993
Customers' deposits	-	-	46,764,858	46,764,858
Islamic customers' deposits	-	-	4,488,815	4,488,815
Interest payable and other liabilities	1,094,956	-	3,254,723	4,349,679
Medium-term loans	-	-	5,903,034	5,903,034
Long-term loans	-	-	9,324	9,324
Total	1,094,956	-	69,828,373	70,923,329

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

40 Derivatives

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

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

40 Derivatives (continued)

Statement of Derivatives as at 31 December 2011

	Positive fair value	Negative fair value	Notional amount	Notional amount by term 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
Forward foreign exchange contract	128,504	115,026	23,297,382	16,105,966	3,774,214	1,441,099	1,976,103	-
Foreign exchange options (bought)	-	31,768	5,542,410	486,742	2,113,199	2,626,834	315,635	-
Foreign exchange options (sold)	31,642	-	7,001,116	1,975,745	2,092,581	2,617,156	315,634	-
Interest rate swaps	1,246,603	1,220,309	22,220,366	4,103,569	1,929,112	2,282,951	6,095,313	7,809,421
Credit Default Swaps	-	6,982	102,849	-	-	-	102,849	-
Equity options	1,140	1,034	663,141	486,978	87,784	7,346	81,033	-
Futures contracts purchased (Customer)	-	6,447	172,065	170,978	1,087	-	-	-
Futures contracts sold (Customer)	1,241	-	178,890	178,838	52	-	-	-
Futures contracts sold (Bank)	6,447	-	172,065	170,978	1,087	-	-	-
Futures contracts purchased (Bank)	-	1,241	178,890	178,838	52	-	-	-
	1,415,577	1,382,807	59,529,174	23,858,632	9,999,168	8,975,386	8,886,567	7,809,421

Statement of Derivatives as at 31 December 2010

	Positive fair value	Negative fair value	Notional amount	Notional amount by term 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
Forward foreign exchange contract	237,255	202,764	30,627,886	21,221,183	3,431,627	5,823,216	151,860	-
Foreign exchange options (bought)	-	84,895	8,972,288	5,324,298	3,116,773	349,993	181,224	-
Foreign exchange options (sold)	84,990	-	12,709,233	5,247,860	3,106,550	4,173,599	181,224	-
Interest rate swaps	787,935	796,010	16,058,219	796,064	319,092	3,620,272	8,910,226	2,412,565
Equity derivatives	5,277	9,166	286,480	13,763	26,993	89,303	156,421	-
Futures contracts purchased (Customer)	-	7	104,452	104,452	-	-	-	-
Futures contracts sold (Customer)	-	2,114	109,601	107,068	-	2,533	-	-
Futures contracts sold (Bank)	7	-	104,452	104,452	-	-	-	-
Futures contracts purchased (Bank)	2,114	-	109,601	107,068	-	2,533	-	-
	1,117,578	1,094,956	69,082,212	33,026,208	10,001,035	14,061,449	9,580,955	2,412,565

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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 BCBS (Basel Committee) and 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 and capital buffer 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 the Basel Two 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 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

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

o Tier 1 capital, which includes issued and 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.

o 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 (up to 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.

o 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. For U.A.E. Central Bank reporting purposes, the bank is currently following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel 2.

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 31 December 2007 medium-term floating rates notes 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 provided long term loans in 2009 which are also treated as Tier 2 capital.

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

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

The Group's regulatory capital positions as at 31 December 2011 and 2010 were as follows:

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

41 Capital management (continued)

Regulatory capital (continued)

		2011 AED'000	2010 AED'000
Tier 1 capital			
Issued and paid up capital		**1,690,770**	1,690,770
Statutory and legal reserve		**846,745**	845,385
General reserve		**312,000**	312,000
Cumulative translation adjustment		**(33,022)**	(19,483)
Retained earnings		**9,792,462**	9,300,191
Non-controlling interest		**5,271**	13,948
Total		**12,614,226**	12,142,811
Tier 2 capital			
Allowance for collective impairment		**767,639**	682,152
Investments revaluation reserve		**(346,145)**	(284,120)
Qualifying subordinated liabilities*		**4,634,012**	4,801,134
Total		**5,055,506**	5,199,166
Deduction from capital		**(31,825)**	(31,825)
Total capital base	**(A)**	**17,637,907**	17,310,152
Risk-weighted assets			
Credit risk		**71,108,245**	70,589,478
Market risk		**309,477**	348,316
Operational risk		**6,472,458**	5,351,405
Total risk-weighted assets	**(B)**	**77,890,180**	76,289,199
Risk asset ratio	[(A)/(B) x 100]	**22.64%**	22.69%

* Qualifying subordinated liabilities represents the following:

	2011 AED'000	2010 AED'000
Tier 2 loan from the Ministry of Finance of the U.A.E. [Note 19(a)]	**3,443,593**	3,443,593
Medium-term floating rate notes [Note 19(b)]	**1,190,419**	1,357,541
	4,634,012	4,801,134

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

41 Capital management (continued)

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.

42 Risk management

The Group has set up a risk management infrastructure supported by adoption of 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 (Interest rate risk and currency risk)
- 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 framework and the risk appetite of the Group. 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 various concentration limits, approves policy exceptions and monitors 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. The Risk Management 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 risks.

The Credit Risk and Control Unit within Risk Management Group is responsible for developing, validating and revalidating Basel 2 risk models for risk ratings and scoring, including calculating and recalibrating Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD") variables.

The Economic Capital team within Risk Management Group is responsible for calculating the Group's economic capital requirement and managing the Group's Internal Capital Adequacy Assessment Process (ICAAP). This entails monitoring the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less risk capital demand) and recommending appropriate actions, as required.

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 obligors or 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 oversees credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

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 Credit 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 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.

Wholesale Credit Risk Management includes Special Assets Management Group that manages credits that are rated as watch list and worse. Special Assets Management Group was established to have a more focused view on all remedial accounts and, on a pro-active basis, identify and take timely actions on potential weak credits.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Credit risk management (continued)

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.

Going forward, as part of its customer-centric strategy, retail credit will monitor risk at both the customer and product level.

All approval authorities are delegated by the Chief Executive Officer (the "CEO") acting on behalf of the Board of Directors. 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. In retail the focus is on testing the Risk Management Process including preodic review of retail assets portfolio quality and related provision. The specialists 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 the Group's 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 and ensure approved credit policies, guidelines and operating procedures across the Group are implemented or highlight identified gaps in their reports.

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 – 22. Obligors at the higher risk end rated 21 and 22 are categorized as "Watch List". Classified exposures fall into 5 categories representing escalating degrees of severity. Assets rated 23 and 24 are categorized as "Specially Mentioned I" and 25 are categorized as "Specially Mentioned II". All Loans and advances rated from 21 to 25 are considered as Grade 4 – Watch-List in the note below.

Outside the 25 point scale, there are 4 ratings – Non-Accrual Under Restructuring (NAUR), Sub-standard, Doubtful and Loss, categorized as Non-Performing assets. NAUR rating is assigned to borrowers that are past due by more than 90 days on payment of interest and where negotiation for re-structuring is in progress and where there is no loss of principal is envisaged. Sub-standard loans are assets where the ability to service the debt has been severely impacted and where the principal or interest is past due for over 90 days and there is no immediate prospects of a restructuring. Provisions and loans classification are taken on Sub-standard, Doubtful and Loss categories in line with the Central Bank of U.A.E. guidelines.

When interest or principal of a credit is overdue for ninety 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. Any exception to this policy required the approval of the CRO and is only considered when interest is current and principal is under "good faith" restructuring discussions.

42 Risk management (continued)

Credit risk management (continued)

Loan classification (continued)

Impairment of retail loans is calculated by applying a formulaic approach whereby a provision of 25% of loan balance is made when it is past due by more than 90 days and a provision of 50% of loan balance is made when is past due by more than 120 days and less than 180 days. 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. The only exception to this is high risk mortgage loans to individuals where the loan amount is written off at 180 days. For all other cases of mortgage defaults the bank provisions for the full amount of negative equity at 180 days.

Impaired loans and securities

Impaired loans and other financial assets are loans and other financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and other financial assets agreements. These assets are graded Non Accrual Under Restructuring, Substandard, Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits. It also includes assets where interest has been suspended or stopped pending conclusion of the re-structuring.

Past due but not impaired loans and securities

Past due but not impaired loans and other financial assets are those loans and other financial assets 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 on either collateral value or the market value of the asset where such price is available.

Write-off policy

The Group writes off a loan or other financial asset (and any related allowances for impairment losses) when the Group Credit determines that the loans or other financial assets 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. Assets are written-off against provisions up to the extent of amount considered un-collectible

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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		Islamic financing and Investment		Other financial assets	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Impaired	-	-	-	-	-	-	-	-
Renegotiated and impaired loans	-	-	-	1,354,215	-	-	-	-
Non Accrual Under Restructuring	-	-	**1,632,960**	-	**135,010**	-	-	-
Substandard	-	-	**689,899**	269,430	**23,404**	12,912	-	-
Doubtful	**607,338**	593,182	**2,263,032**	3,226,960	**31,243**	100,014	**17,601**	22,401
Loss	-	-	**276,053**	278,133	**50,310**	62,030	-	-
Gross amount	**607,338**	593,182	**4,861,944**	5,128,738	**239,967**	174,956	**17,601**	22,401
Interest/profit suspended	**(97,709)**	(56,910)	**(505,361)**	(446,824)	**(8,710)**	(20,564)		
Specific allowance for impairment	**(489,984)**	(477,848)	**(1,229,465)**	(1,975,238)	**(49,881)**	(111,028)		
	19,645	58,424	**3,127,118**	2,706,676	**181,376**	43,364	**17,601**	22,401
Past due but not impaired	-	-	-	-	-	-	-	-
Past due by less than 90 days	-	-	**47,946**	302,859	**184,904**	1,016	-	-
Past due beyond 90 days	**4,660**	-	**263,744**	66,757	-	-	-	-
Past due retail loans beyond 30 days	-	-	**384,854**	666,781	**16,710**	80,000	-	-
	4,660		**696,544**	1,036,397	**201,614**	81,016	-	-
Neither past due nor impaired	-	-	-	-	-	-	-	-
Gross amount	**10,123,370**	13,593,531	**29,701,880**	32,854,561	**4,652,257**	5,171,024	**7,163,992**	8,061,410
Other allowances	-	-	**(98,641)**	-	-	-	-	-
Collective allowance for impairment	-	-	**(760,939)**	(677,652)	**(6,700)**	(4,500)	-	-
	10,123,370	13,593,531	**28,842,300**	32,176,909	**4,645,557**	5,166,524	**7,163,992**	8,061,410
Carrying amount	**10,147,675**	13,651,955	**32,665,962**	35,919,982	**5,028,547**	5,290,904	**7,181,593**	8,083,811

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Credit risk management (continued)

Renegotiated and impaired loans represent the net carrying value of loans and advances to Dubai Government Related Entities that have been restructured resulting in concessions agreed to by the Group concerning an extended repayment period and reduced interest rates from the original loan terms. These concessions, representing value foregone by the Group, have been recognised as impairments in accordance with International Financial Reporting Standards. The impairment charge will be gradually released to the consolidated income statement over the remaining life of the loan subject to satisfactory performance of the account according to the restructured terms.

During the year ended 31 December 2011, renegotiated loans amounting to AED 1,354 million have been transferred from impaired to neither past due nor impaired category (i.e. performing) following a period of 12 months during which the loan performed satisfactorily in accordance with the agreed terms of the restructuring.

Other allowances represent the difference between the carrying amount prior to renegotiating Dubai Government Related Entities loans mentioned above and the net present value of the future cashflows using the original effective interest rate.

The credit quality of the portfolio of loans and advances measured at amortised cost and Islamic financing and investing products at amortised costs that were neither past due nor impaired as at 31 December 2011 and 2010 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

	Loans and advances		**Islamic financing and investment products**	
	2011	2010	**2011**	2010
Grades	**AED'000**	AED'000	**AED'000**	AED'000
Grade 1 – Low risk	**3,202,529**	2,688,734	**284,512**	271,727
Grade 2 – Satisfactory risk	**19,910,282**	18,764,661	**2,305,165**	2,799,428
Grade 3 – Fair Risk	**2,856,737**	3,984,695	**439,863**	493,812
Grade 4 – Watch List	**3,732,332**	7,416,471	**1,622,717**	1,606,057
	29,701,880	32,854,561	**4,652,257**	5,171,024

Collateral against loans and advances measured at amortised cost 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 amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against other financial assets, and no such collateral was held at 31 December 2011 or 2010.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Credit risk management (continued)

The table below details the fair value of the collateral as at the date of granting loans and advances 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 and Islamic financing and investment products		Due from banks	
	2011	2010	**2011**	2010
Against individually impaired loans and advances:	**AED'000**	AED'000	**AED'000**	AED'000
Property	**1,269,073**	1,820,066		
Equities	**641,545**	801,297		
Cash	**20,397**	11,567		
Others	**86,922**	118,054		
Against loans and advances not impaired:				
Property	**9,244,454**	8,255,773		
Equities	**967,799**	1,023,378		
Cash	**1,736,750**	2,153,084	**86,830**	156,711
Others	**2,654,792**	1,836,114		
	16,621,732	16,019,333	**86,830**	156,711

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

	U.A.E.	Middle East countries	O.E.C.D.	Other countries	Total
2011	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Impaired loans and advances	**2,366,289**	**2,465,806**	**29,849**	**-**	**4,861,944**
Impairment allowance for credit losses inclusive of interest in suspense	**(484,189)**	**(1,233,098)**	**(17,539)**	**-**	**(1,734,826)**
	1,882,100	**1,232,708**	**12,310**	**-**	**3,127,118**
2010					
Impaired loans and advances	2,163,250	2,937,348	28,140	-	5,128,738
Impairment allowance for credit losses inclusive of interest in suspense	(419,495)	(1,986,939)	(15,628)	-	(2,422,062)
	1,743,755	950,409	12,512	-	2,706,676

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Credit risk management (continued)

The distributions by geographical concentration of impaired Islamic financing and investment products measured at amortised cost and impairment allowance for credit losses are as follows:

	U.A.E.	Middle East countries	O.E.C.D.	Other countries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
2011					
Impaired Islamic financing and investment products	**221,738**	**18,229**	**-**	**-**	**239,967**
Impairment allowance for credit losses inclusive of profit in suspense	**(58,591)**	**-**	**-**	**-**	**(58,591)**
	163,147	**18,229**	**-**	**-**	**181,376**
2010					
Impaired Islamic financing and investment products	79,469	95,487	-	-	174,956
Impairment allowance for credit losses inclusive of profit in suspense	(49,968)	(81,624)	-	-	(131,592)
	29,501	13,863	-	-	43,364

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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Operational risk management (continued)

The Group's operational risk framework is supported by an 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 the 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.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Market risk management (continued)

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.

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.

During the year ended 31 December 2011, VaR was calculated regularly and as of 31 December 2011 the 99% VaR was USD 0.35 million (31 December 2010: USD 1.34 million).

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

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 31 December 2011 would have been an decrease in profit by 4.07% (in case of decrease of interest rate) and would have been an increase in profit by 4.18% (in case of increase of interest rate) [2010: -2.4% and +3.2%] respectively.

During the year ended 31 December 2011, the effective interest rate on due from banks and certificates of deposits with central banks was 1.16% (2010: 1.71%), on loans and advances measured at amortised cost 6.24% (2010: 7.12%), on customers' deposits 1. 60% (2010: 2.50%) and on due to banks (including repurchase agreements) 0.95% (2010: 1.70%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	2011						
	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest bearing items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with central banks	3,200,569	6,150,000	368,000	-	-	5,013,231	14,731,800
Deposits and balances due from banks	5,820,466	703,963	1,096,138	171,725	27,132	2,328,251	10,147,675
Other financial assets measured at fair value	216,609	147,249	139,292	226,055	-	1,823,583	2,552,788
Loans and advances measured at amortised cost	12,059,402	670,331	12,903,843	5,655,542	1,375,989	855	32,665,962
Islamic financing and investment products measured at amortised cost	1,305,306	92,940	3,184,489	263,649	182,163	-	5,028,547
Other financial assets measured at amortised costs	5,010,779	1,460,004	643,102	65,730	-	1,978	7,181,593
Interest receivable and other assets	-	-	-	-	-	5,417,102	5,417,102
Investment properties	-	-	-	-	-	318,028	318,028
Property and equipment	-	-	-	-	-	1,197,827	1,197,827
Total assets	27,613,131	9,224,487	18,334,864	6,382,701	1,585,284	16,100,855	79,241,322
Liabilities and equity							
Deposits and balances due to banks	5,817,878	223,871	140,264	128,520	-	912,837	7,223,370
Repurchase agreements with banks	2,505,165	-	-	-	-	-	2,505,165
Customers' deposits	19,294,916	2,720,648	2,031,186	744,953	133,942	15,251,375	40,177,020
Islamic customers' deposits	4,283,976	341,335	163,923	77,923	-	372,706	5,239,863
Insurance and life assurance funds	-	-	-	-	-	972,867	972,867
Interest payable and other liabilities	-	-	-	-	-	5,676,168	5,676,168
Medium-term loans	1,190,419	-	-	-	3,443,593	-	4,634,012
Long-term loans	-	-	-	-	9,007	-	9,007
Equity attributable to shareholders of the Parent	-	-	-	-	-	12,262,810	12,262,810
Non-controlling interest	-	-	-	-	-	541,040	541,040
Total liabilities and equity	33,092,354	3,285,854	2,335,373	951,396	3,586,542	35,989,803	79,241,322
On Balance Sheet gap	(5,479,223)	5,938,633	15,999,491	5,431,305	(2,001,258)	(19,888,948)	-
Off Balance Sheet gap	376,261	885,905	(107,592)	221,882	(1,376,456)	-	-
Cumulative interest rate sensitivity gap	(5,102,962)	1,721,576	17,613,475	23,266,662	19,888,948	-	-

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	2010						
	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	2,462,822	1,932,000	3,410,000	-	-	5,568,900	13,373,722
Deposits and balances due from banks	7,380,750	3,329,551	851,813	407,551	210,687	1,471,603	13,651,955
Other financial assets measured at fair value	3,164	129,933	103,372	95,198	31,148	1,859,865	2,222,680
Loans and advances measured at amortised cost	13,205,072	2,319,304	6,199,890	10,580,468	3,614,939	309	35,919,982
Islamic financing and investment products measured at amortised cost	1,969,982	281,893	442,828	1,930,483	665,718	-	5,290,904
Other financial assets measured at amortised costs	3,716,724	3,873,414	402,143	60,550	26,553	4,427	8,083,811
Interest receivable and other assets	-	-	-	-	-	4,986,426	4,986,426
Investment properties	-	-	-	-	-	172,320	172,320
Property and equipment	-	-	-	-	-	1,144,003	1,144,003
Total assets	28,738,514	11,866,095	11,410,046	13,074,250	4,549,045	15,207,853	84,845,803
Liabilities and equity							
Deposits and balances due to banks	4,597,553	249,298	490,328	87,700	-	613,747	6,038,626
Repurchase agreements with banks	3,241,907	-	127,086	-	-	-	3,368,993
Customers' deposits	26,152,014	4,642,514	4,485,517	674,549	517,385	10,292,879	46,764,858
Islamic customers' deposits	3,582,281	297,023	269,074	4,323	115	335,999	4,488,815
Insurance and life assurance funds	-	-	-	-	-	896,587	896,587
Interest payable and other liabilities	-	-	-	-	-	4,990,584	4,990,584
Medium-term loans	2,459,441	-	-	-	3,443,593	-	5,903,034
Long-term loans	-	-	-	-	9,049	275	9,324
Equity attributable to shareholders of	-	-	-	-	-	11,844,743	11,844,743
the Parent	-	-	-	-	-	540,239	540,239
Non-controlling interest							
Total liabilities and equity	40,033,196	5,188,835	5,372,005	766,572	3,970,142	29,515,053	84,845,803
On Balance Sheet gap	(11,294,682)	6,677,260	6,038,041	12,307,678	578,903	(14,307,200)	-
Off Balance Sheet gap	(494,341)	22,510	211,792	260,039	-	-	-
Cumulative interest rate sensitivity gap	(11,789,023)	(5,089,253)	1,160,580	13,728,297	14,307,20	-	-

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Market risk management (continued)

Interest rate risk management (continued)

Interest rate swap contracts used as hedging instruments

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

Fair value hedges:					Notional amount by term maturity				
	Average contracted fixed interest rate	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 year to 5 years AED'000	Over 5 years AED'000
2011									
Interest rate swaps	**5.25%**	**5,545**	**2,862**	**556,460**	**-**	**-**	**-**	**123,046**	**433,414**

Interest rate swap contracts exchanging fixed rate interest for floating rate interest are designated and effective as fair value hedges in respect of interest rates. During the year, the hedge was effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the other financial assets measured at amortized cost were adjusted by AED 2.68 million which was included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

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 31 December are:

	2011			2010		
	Net spot position	**Forward position**	**Total**	Net spot position	Forward position	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
U.S. Dollars	**8,582,247**	**(804,355)**	**7,777,892**	8,179,352	(1,190,036)	6,989,316
Qatari Riyals	**940,003**	**(6,476)**	**933,527**	5,332,490	(491,683)	4,840,807
Indian Rupees	**44,918**	**49,483**	**94,401**	71,764	22,468	94,232
Pound Sterling	**(156,262)**	**184,884**	**28,622**	(456,644)	473,211	16,567
Singapore Dollar	**(1,269)**	**3**	**(1,266)**	694	-	694
Egyptian Pound	**(19,068)**	**25,206**	**6,138**	(129,764)	-	(129,764)
Euro	**(54,170)**	**61,612**	**7,442**	55,238	(61,238)	(6,000)
Bahrain Dinar	**286,262**	**-**	**286,262**	277,106	-	277,106
Saudi Riyal	**14,153**	**-**	**14,153**	(245,654)	226,090	(19,564)
Japanese Yen	**910**	**2**	**912**	256,119	(255,579)	540
Swiss Francs	**549**	**1**	**550**	1,234	3	1,237
Pakistani Rupees	**15,224**	**-**	**15,224**	15,956	-	15,956
Kuwaiti Dinar	**(673,381)**	**663,028**	**(10,353)**	(1,190,507)	1,197,415	6,908
Canadian Dollars	**2,049**	**(73)**	**1,976**	597	(1,737)	(1,140)
Australian Dollars	**1,352**	**(1)**	**1,351**	1,760	-	1,760
Omani Riyal	**1,138**	**-**	**1,138**	9,934	(1,647)	8,287
Other	**(5,509)**	**10,388**	**4,879**	4,529	(2,228)	2,301
Total	**8,979,146**	**183,702**	**9,162,848**	12,184,204	(84,961)	12,099,243

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.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Liquidity risk management (continued)

The Group's senior management's focus on liquidity management is to:

- Better understand the various sources of liquidity risk, particularly under stressed conditions;
- Ensure the Group's short term and long term resilience, as measured by the Basel 3 proposals, is sufficiently robust to meet realistic adverse scenarios;
- Develop effective contingency plans to deal with liquidity crises;
- Develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- Demonstrate that the bank 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 assets and liabilities 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 its review.

The members of ALCO are the Chief Executive Officer, the Head of Corporate Affairs, 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 Euro Medium Term Notes program was launched in 2004 and, to date; this has outstanding balance of AED 1.2 billion **[Note 19(b)]** in medium-term loans. During the year ended 31 December 2007, the Group raised AED 1.8 billion for 5 years through a syndicated borrowing arrangement.

To manage liquidity risk tolerance, the Group uses various indicators including the regulatory ratio of utilization of funds to stable resources. Other indicators include loans and advances to customers' deposits and stable funds, liquid assets to customers' deposits and liquid assets to total assets ratios, plus deposit concentration risk indicators. Any breach of any tolerance level needs to be reported to ALCO and remedied within a short period.

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 for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Liquidity risk management (continued)

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2011 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	8,213,801	6,150,000	367,999	-	-	14,731,800
Deposits and balances due from banks	8,337,273	800,183	774,986	192,285	42,948	10,147,675
Other financial assets measured at fair value	288,914	146,250	106,855	136,317	1,874,452	2,552,788
Loans and advances measured at amortised cost	13,763,656	1,860,492	3,255,437	9,236,120	4,550,257	32,665,962
Islamic financing and investment products measured at amortised cost	3,102,061	514,600	55,223	578,977	777,686	5,028,547
Other financial assets measured at amortised cost	1,094,364	636,194	734,447	2,224,196	2,492,392	7,181,593
Interest receivable and other assets	1,984,265	1,787,046	105,577	789,314	750,900	5,417,102
Investment properties	-	-	-	-	318,028	318,028
Property and equipment	-	-	-	-	1,197,827	1,197,827
Total assets	**36,784,334**	**11,894,765**	**5,400,524**	**13,157,209**	**12,004,490**	**79,241,322**
Liabilities and equity						
Deposits and balances due to banks	6,730,715	243,028	121,107	128,520	-	7,223,370
Repurchase agreements with banks	2,505,165	-	-	-	-	2,505,165
Customers' deposits	34,116,620	2,744,115	2,078,940	1,078,751	158,594	40,177,020
Islamic customers' deposits	4,656,682	341,335	163,923	77,923	-	5,239,863
Insurance and life assurance funds	-	-	649,994	322,873	-	972,867
Interest payable and other liabilities	2,047,132	1,591,930	586,056	898,103	552,947	5,676,168
Medium-term loans	-	-	-	-	4,634,012	4,634,012
Long-term loans	-	-	-	-	9,007	9,007
Equity attributable to shareholders of the Parent	-	-	-	-	12,262,810	12,262,810
Non-controlling interest	-	-	-	-	541,040	541,040
Total liabilities and equity	**50,056,314**	**4,920,408**	**3,600,020**	**2,506,170**	**18,158,410**	**79,241,322**

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Liquidity risk management (continued)

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2010 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	8,031,722	1,931,431	3,410,000	569	-	13,373,722
Deposits and balances due from banks	8,858,786	3,329,551	337,173	915,757	210,688	13,651,955
Other financial assets measured at fair value	152,707	121,945	148,626	1,733,933	65,469	2,222,680
Loans and advances measured at amortised cost	13,204,535	2,319,369	6,200,019	10,581,118	3,614,941	35,919,982
Islamic financing and investment products measured at amortised cost	1,934,862	296,893	442,828	1,950,603	665,718	5,290,904
Other financial assets measured at amortised cost	936,996	364,073	498,294	3,955,064	2,329,384	8,083,811
Interest receivable and other assets	1,557,791	1,775,706	647,121	499,829	505,979	4,986,426
Investment properties	-	-	-	-	172,320	172,320
Property and equipment	-	-	-	-	1,144,003	1,144,003
Total assets	34,677,399	10,138,968	11,684,061	19,636,873	8,708,502	84,845,803
Liabilities and equity						
Deposits and balances due to banks	3,247,714	249,298	617,414	1,924,200	-	6,038,626
Repurchase agreements with banks	3,368,993	-	-	-	-	3,368,993
Customers' deposits	36,486,493	4,645,721	4,486,017	626,586	520,041	46,764,858
Islamic customers' deposits	3,918,280	297,023	269,074	4,323	115	4,488,815
Insurance and life assurance funds	-	389,533	280,120	226,934	-	896,587
Interest payable and other liabilities	1,823,242	1,165,089	1,126,800	542,778	332,675	4,990,584
Medium-term loans	-	1,101,900	-	-	4,801,134	5,903,034
Long-term loans	-	-	-	-	9,324	9,324
Equity attributable to shareholders of the Parent	-	-	-	-	11,844,743	11,844,743
Non-controlling interest	-	-	-	-	540,239	540,239
Total liabilities and equity	48,844,722	7,848,564	6,779,425	3,324,821	18,048,271	84,845,803

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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 amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

	2011		2010	
	Carrying amount	**Fair Value**	Carrying amount	Fair Value
	AED'000	**AED'000**	AED'000	AED'000
Financial assets				
- Other financial assets measured at amortised cost	**7,181,593**	**6,851,658**	8,083,811	7,755,233
Financial liabilities				
- Medium-term floating rate notes	**1,190,419**	**986,536**	2,459,441	2,173,030

The fair value for other financial assets measured at amortised 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 rate 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
for the year ended 31 December 2011 (continued)

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).

	31 December 2011			
	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	**109,579**	**430,430**	**-**	**540,009**
- Equities	**39,699**	**-**	**652**	**40,351**
- Mutual and other funds	**169,699**	**263,965**	**-**	**433,664**
Other financial assets measured at FVTOCI				
- Equities	**871,772**	**-**	**390,794**	**1,262,566**
- Mutual and other funds	**276,198**	**-**	**-**	**276,198**
	1,466,947	**694,395**	**391,446**	**2,552,788**
Other assets				
Positive fair value of derivatives	**128,504**	**1,287,073**	**-**	**1,415,577**
Other liabilities				
Negative fair value of derivatives	**115,026**	**1,267,781**	**-**	**1,382,807**

	31 December 2010			
	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	151,066	211,747	-	362,813
- Equities	117,072	-	678	117,750
- Mutual and other funds	110,567	-	-	110,567
Other financial assets measured at FVTOCI				
- Equities	925,947	-	436,589	1,362,536
- Mutual and other funds	269,014	-	-	269,014
	1,573,666	211,747	437,267	2,222,680
Other assets				
Positive fair value of derivatives	237,255	880,323	-	1,117,578
Other liabilities				
Negative fair value of derivatives	202,764	892,192	-	1,094,956

There were no transfers between Level 1 and 2 during the years ended 31 December 2011 and 2010.

Notes to the Consolidated Financial Statements for the year ended 31 December 2011 (continued)

42 Risk management (continued)

Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI

	2011	2010
	AED'000	AED'000
At 1 January	**437,267**	499,588
Purchases	**13,318**	24,397
Cost of sales	**(4,803)**	(2,840)
Change in fair value	**(54,336)**	(83,878)
At 31 December	**391,446**	437,267

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.

All gain and loses included in other comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2011:

	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**
2011				
Other financial assets measured at fair value	**101,402**	**(101,402)**	**153,876**	**(153,876)**
2010				
Other financial assets measured at fair value	59,113	(59,113)	163,155	(163,155)

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 consolidated income statement or consolidated statement of comprehensive income.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011 (continued)

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 31 December 2011 of AED 509.60 million (2010: AED 949.86 million).

44 Fund management

Makaseb Funds Company BSC and Mashreq Capital (DIFC) Limited (subsidiaries – Note 1) manage a number of 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 72.70 million as at 31 December 2011 (2010: AED 79.02 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.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2011 were approved by the Board of Directors and authorized for issue on 1 February 2012.