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The late H.H. Sheikh Zayed bin Sultan Al Nahyan
The first President of the UAE
'Mercy be upon him'



His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates
Supreme Commander of the UAE Armed Forces



His Highness Sheikh Mohammed Bin Zayed Al Nahyan
Crown Prince of Abu Dhabi
Deputy Supreme Commander of the
UAE Armed Forces

Bank Overview, Mission, Vision and Values

Abu Dhabi Islamic Bank was established in 1997 through Emiri Decree and began commercial operations in 1998. All contracts, operations and transactions are carried out in accordance with Islamic Shari'a principles.

The Bank is a leading regional Islamic financial services group and has a wide distribution network, with 66 branches in the UAE.

Our Mission

To provide Islamic financial solutions for the global community.

Our Vision

To be a top tier Islamic financial services group.

Our Values

- We keep it Simple and Sensible
- We are Transparent
- We work for Mutual Benefit
- We nurture Hospitality & Tolerance
- We are Shari'a inspired

Bank Strategy

The Bank's overall strategy has three pillars:

Build market leadership within the UAE

- The key customer service sectors are Private Banking, Personal Banking, Business Banking and Wholesale Banking, supported by Cards, Transaction Banking, Treasury, Corporate Finance, Investment Banking and Wealth Management.
- ADIB's retail presence will continue to aim for market leadership.
- At the heart of ADIB's new customer-centric approach is a greater bank-wide focus on customer services.

Create an integrated financial services group

- ADIB continues to build a diversified Islamic financial services model.
- Currently ADIB provides customers access to Real Estate Management and Advisory (Burooj), Takaful insurance through (Abu Dhabi National Takaful Company) and brokerage (through ADIB Securities).

Pursue international growth opportunities

- With the growing acceptance of Islamic banking worldwide, ADIB is increasingly turning its attention to replicating its business model through systematic geographic expansion.
- ADIB's international expansion began in Egypt with the acquisition of 49 percent of National Bank of Development, and continues with the establishment of Iraq, Qatar, UK operations.
- ADIB is also in the process of applying for banking licences in a range of other countries.

Abu Dhabi Islamic Bank – The New Brand Identity

As one of the leading Islamic banks in the region, we developed a new strategy to provide world-class, ethical banking based on our core values. Our new mission is to provide 'Islamic financial solutions for the Global community,' while our vision is to become a top tier global Islamic financial services group. We unveiled our new brand identity to be in line with our mission and vision. We also introduced a new slogan that captures our commitment. We are committed to deliver 'Banking as it should be.'

Our brand identity is a symbol of a new promise. We have changed the face of ADIB in line with our vision. We are proud of our legacy and want to build on the foundation of trust that our customers and partners have placed in the ADIB brand over the years.

We look forward to enhancing our customer relationships as we jointly contribute to the next chapter of the ADIB story. Our commitment to Shari'a-inspired banking heralds an exciting future for the Bank, recognising the universal need for a financial system based on moral values and principles.

What does our new brand mean?

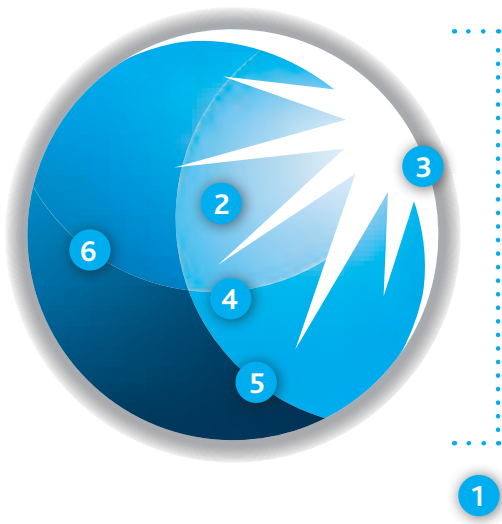
The ADIB brand personifies our core values, our Shari'a-inspired nature, and our stress on ethical dealings.

The ADIB brand identity is an evolution that brings to the fore our core values. These core values are: Simple and Sensible, Transparency, Mutual Benefit, Hospitality and Tolerance and Shari'a-inspired.

We have renewed our focus on the customer and service quality. We are improving our network, products and service delivery. We have redesigned branches to increase interaction with customers, developed new alternative banking channels such as internet and mobile banking, 24-hour online customer terminals that offer a range of banking services, and the way we respect and welcome our customers

What does the logo represent?

The ADIB logo reflects our focus on service quality through its 3D feature. The glass-like look stands for transparency. The circle shape signifies simplicity and accessibility but also indicates ADIB's regional expansion and international expertise. The 'Eastern' position of the star is inspired by its mission – Islamic financial solutions for the global community. The different shades of blue signify welcoming customers of different backgrounds. And finally, the two overlapping crescents symbolise partnership and mutual benefit, a reminder that customer success is ADIB's success, while the crescent represents ADIB's commitment to Shari'a as its foundation.



Abu Dhabi Islamic Bank

A new brand rooted in heritage and continuity

The new brand depicts our evolution with a focus on revitalising our legacy

Our new logo tells our brand story and represents our values

1. The circle is a pure simple shape that is used to demonstrate 'Simplicity'
2. The use of the spherical glass-like form suggests 'Transparency'
The 5 points of the star symbolise the 5 pillars of Islam
3. When this is combined with the crescent shape, it represents the 7 Emirates
The position of the 'star' also represents a 'star from the East', symbolising the 'Islamic solutions to the Global community'
4. The different shades of blue reflect ADIB's 'Hospitality' and 'Tolerance' towards all people
5. The duality of the 2 overlapping crescents in the mark symbolises 'Mutual Benefit'
6. The crescents also represent our commitment to Shari'a as our foundation value

Financial Highlights

AED 749

(million) Total Provisions

84.8%

Customer Financing to Deposits Ratio

AED 15.8

(billion) Capital Resources

AED 8.1

(billion) Equity

1,024

(million) Net Profit

3,074

(million) Total Revenues

Net Profit of AED 1,024 million in 2010

Total Revenues for 2010 increased by 22.0% to AED 3,074 million

	2010 AED mn	2009 AED mn	2008 AED mn	2007 AED mn	2006 AED mn
Summary Income Statement					
Net Revenue from Funding	2,595.7	2,108.6	1,728.5	952.4	706.4
Fees, Commissions and Foreign Exchange Income	372.4	237.6	154.6	144.5	106.7
Investment and Other Revenues	105.9	174.1	315.4	340.6	198.1
Total Revenues	3,074.0	2,520.3	2,198.5	1,437.5	1,011.2
Operating Profit (Margin)	1,772.8	1,526.8	1,310.7	886.2	632.5
Credit Provisions and Impairment Charge	749.2	1,448.8	459.6	117.1	60.5
Net Profit	1,023.6	78.0	851.1	769.1	572.0
Summary Balance Sheet					
	AED bn	AED bn	AED bn	AED bn	AED bn
Total Assets	75.3	64.1	51.2	44.0	36.3
Customer Financing	48.0	40.5	34.2	24.3	20.4
Customer Deposits	56.5	48.2	37.5	29.6	23.8
Financial Ratios					
Customer Financing to Deposits Ratio	84.85%	83.94%	91.18%	82.11%	85.79%
Risk asset ratio – Total (CAR, %) – Basel II	16.03%	16.96%	11.64%	16.50%	11.96%
Cost Efficiency Ratio	42.3%	39.4%	40.4%	38.4%	37.5%

+22.0%

Revenues (AED mn)

2010	3,074
2009	2,520
2008	2,199
2007	1,438
2006	1,011

+16.1%

Operating Profit (Margin) (AED mn)

2010	1,773
2009	1,527
2008	1,311
2007	886
2006	632

+17.2%

Total Customer Deposits (AED mn)

2010	56,517
2009	48,220
2008	37,486
2007	29,629
2006	23,822

+16.0%

Capital Adequacy Ratio

2010	16.03%
2009	16.96%
2008	11.64%
2007	16.50%
2006	11.96%

84.9%

Customer Financing to Deposits Ratio

2010	84.85%
2009	83.94%
2008	91.18%
2007	82.11%
2006	85.79%

+18.5%

Total Customer Financing (AED mn)

2010	47,953
2009	40,474
2008	34,179
2007	24,327
2006	20,437

Credit Ratings

	Long term	Short term	Outlook
Moody's Investors Service	A2	P1	Stable
Fitch Ratings	A+	F1	Stable

2010 Awards

Franchise awards



Best Islamic Bank 2010 in the Middle East by Bankers Middle East



Best Islamic Bank in the region by Islamic Banking and Finance Magazine



Best Islamic Bank in the UAE by Islamic Finance News



Best Islamic Bank in the UAE by EMEA Finance



Institutional Excellence Award by WIBC



Best Islamic Branding awards in 2010 by Islamic Business and Finance

Customer service awards



Best Private Sector Customer Service Team by The International Customer Service Institute (TICS)



Best Bank - Call Centre Performance by Ethos Consultancy



Most improved bank for Service Excellence by Ethos consultancy

Product awards



Best Savings Account 2010 in the Middle East for ADIB's GHINA savings account



Best Deal in the UAE by Islamic Finance News for financing Emirates Steel Company



Middle East Islamic Financing Deal of Year 2010 / Emirates Steel Company

Human resources award



Emirates Institute of Banking & Financial Studies HRD Award for Emiratisation

Chairman's Statement

The record-breaking performance in 2010 reflects the continued successful implementation of our strategy, and also justifies the decision to adopt a best practice approach to credit provisions and impairment recognition.



The Bank exceeded expectations by recording revenues of more than AED 3 billion, with net profit exceeding AED 1 billion for the first time.

ADIB launched its new brand positioning and identity – 'Banking as it Should Be' – to align the Bank with its vision of becoming a top-tier Islamic financial services group.

ADIB maintained its strong liquidity position while the core banking business continued to grow market share as the number of customers increased to more than 425,000 and the branch network in the UAE reached 66.



+24%

Total Customers

An increase in total customer numbers by 24.4% to 425,730; the opening of the 66th branch in the UAE.

+17%

Total Assets

An increase of 17.4% in total assets to AED 75.3 billion and a top three place in year-on-year improvement in customer service ratings.

Dear Shareholders

Assalam Alaykom Wa Rahmato Allah Wa Barakatoh

On behalf of the Board of Directors of Abu Dhabi Islamic Bank (ADIB) and the Bank's management and staff, I am pleased to introduce the 2010 Annual Report and thank you for your support in the continued growth of the Bank.

Achievements of 2010

2010 was a special year for ADIB. The Bank exceeded expectations by recording revenues of more than AED 3 billion, with net profit exceeding AED 1 billion for the first time, after profit contribution to the investment accounts' holders. 2010 also saw total assets exceeding AED 75 billion. This was possible not only due to the strength of the management and staff in our core banking business, but to the decisive financial and monetary policies pursued by the leaders of the UAE.

The record-breaking performance in 2010 reflects the continued successful implementation of our strategy, and also justifies the decision, taken in 2009, to adopt a best-practice approach to credit provisions and impairment recognition. ADIB maintained its strong liquidity position, while the core banking business continued to grow market share as the number of customers increased to more than 425,000 and the branch network in the UAE reached 66. Another indicator of the Bank's strength was the issue of our benchmark \$750 million five-year sukuk with a 3.745 percent profit distribution rate, one of the most successful issues of the year for all banks in the region.

New brand identity

In 2010 ADIB launched its new brand positioning and identity to align the Bank with its vision of becoming a top-tier Islamic financial services group. The new brand is built on the premise 'Banking as it Should Be'. This tagline captures ADIB's commitment to providing all stakeholders with world-class, ethical banking based on a set of universal core values. These are: We keep it Simple and Sensible, We work for Mutual Benefit, We are Transparent, We Nurture Hospitality and Tolerance, and We are Shari'a-Inspired.

Human Resources

The past year was one of numerous achievements in our efforts to become a preferred employer in the financial services sector. Among them was an increase of 213 in the number of employees, bringing the total to 1,672. Furthermore, I am proud of the fact that by the end of 2010 the Bank's Emiratisation ratio had reached more than 44 percent. This led to ADIB winning the 'HRD Award' from the Emirates Institute of Banking and Financial Studies.

Growth Strategy

These achievements clearly demonstrate the success of the growth strategy we put in place at the beginning of 2008, and our mission to provide Islamic financial solutions for the global community. It also highlights the quality of management leading the strategy, and the dedication of staff who are implementing it.

Part of this success is due to our focus on providing superior customer service and experience, and through offering a larger variety of products and high-quality services to personal, private, business, public sector, and corporate banking clients. The foundations of our growth remain customer service excellence, best practice risk management and qualified staff. This, when combined with our outstanding capital and liquidity position, means that our growth is sustainable and our strategy to become a top tier UAE bank and global Islamic bank is well on track.

Dividend

I am pleased to report that the board recommended, and the shareholders approved, the distribution of a 21.6 percent cash dividend, equivalent to 50 percent of net profit for 2010.

Conclusion

Although we made clear strides in growth and development in 2010, with undisputable signs of further progress, this is still only the Bank's initial growth phase. I am confident that we will maintain the momentum in the coming years and continue to expand, geographically and through new products and services.

I take this opportunity to congratulate the management team of ADIB for their outstanding role in placing ADIB in this position, especially in light of the challenges imposed by the global economic slowdown. I also thank our esteemed Fatwa and Shari'a Supervisory Board for their industry-leading role, which has contributed to placing ADIB at the forefront of Islamic banking.

I extend my sincere appreciation and gratitude to the leaders of the United Arab Emirates, particularly to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, may Allah protect him; and to His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces.

I also thank the Central Bank of the UAE for their continued support of the UAE banking sector in general and of ADIB in particular.



HE Jawaan Awaida Suhail Al Khaili
Chairman

The ADIB Group Business Structure



Board of Directors and Chief Executive Officer



H.E. Jawaan Awaida Suhail Al Khaili
Chairman



Khaled Abdulla Neamat Khouri
Vice Chairman, Abu Dhabi Islamic Bank



Tirad Mahmoud
Chief Executive Officer



Abdulla Bin Aqueeda Al Muhairi
Board Member, Abu Dhabi Islamic Bank



Juma Khamis Mugheer Al Khaili
Board Member, Abu Dhabi Islamic Bank



Dr. Sami Ali Al Amri
Board Member, Abu Dhabi Islamic Bank



Khamis Mohamed Buharoon
Board Member, Abu Dhabi Islamic Bank
Executive Chairman, Burooj



Ragheed Najeeb Shanti
Board Member, Abu Dhabi Islamic Bank

Financial Services Executive Management



Tirad Mahmoud
Chief Executive Officer



Mr. S Sarup
Global Head of Retail Banking



Mr. N Saliba
Global Head of Wholesale Banking



Mr. A Abdullah
Co-Head of Private Banking and
Wealth Management, UAE



Mr. W Al Khazraji
Head of Human Resources, UAE



Dr. O Kilani
Global Head of Shari'a



Mr. M Husain
Group Chief Risk Officer



Mr. M Khan
Global Head of Operations and
Technology



Mr. A Al Shahi
New Country Expansion &
Strategic Initiatives

ADIB's Banking and Financial Services management team is vastly experienced and together represents many years of banking expertise gained through academic qualifications and careers with highly-respected financial institutions.



Mr. A Moir
Global Head of Strategy and Finance



Mr. A Kanan
Global Head of Internal Audit
(Audit and Risk Review)



Mr. B Jallad
Treasurer, UAE



Mr. M Sarwar
Co-Head of Private Banking and
Wealth Management, UAE



Mr. B Ahmed
Global Head of Corporate Governance
and Compliance



Dr. A Habil
Head of Legal, UAE



Ms. N Loutfy
Chief Executive Officer and Managing
Director, Egypt



Mr. N Beck
Head of Project Management Office,
New Country Expansion &
Other Initiatives



Achieving these milestones in a period of unprecedented economic uncertainty clearly validates the soundness of the strategy put in place at the beginning of 2008. The foundations of our growth have been an unwavering focus on customer service excellence, best practice risk management, and qualified staff.

CEO's Report

The management team at ADIB can look back on 2010 with more than a degree of satisfaction. It is now three years since the new team took over, and in 2010 we began to see the results of the decisions that had to be made. Profits and assets reached record levels during the year, justifying the substantial investment in expansion that will pave the way for sustained future growth.

Our best-practice approach to credit management and impairment provision was also vindicated and has allowed us to maintain our growth momentum while simultaneously managing the impact of the legacy portfolio.

Since taking over, the new management team has more than doubled customer financing assets, attracted more than AED 27 billion in new deposits, built the balance sheet to AED 75.3 billion, doubled the number of customers, increased our branch network to 66, and quadrupled the number of ATMs. Net customer financing reached AED 48 billion in 2010 and customer deposits grew to AED 56.5 billion, ending the year with a financing to deposits ratio of 84.8 percent.

In pursuing our new vision to be a top-tier Islamic financial services group and our mission to provide Islamic financial solutions for the global community, ADIB introduced a new brand identity highlighting the Bank's commitment to ethical banking based on our five core values: Simple and Sensible, Transparent, Hospitable, Mutual Benefit and Shari'a-inspired.

We are working hard to implement these simple but powerful values in the way we do business, and our whole offering comes together under our rebranded corporate identity and the positioning of all our products and services under the new slogan 'Banking as it Should Be'.

Achieving these milestones in a period of unprecedented economic uncertainty clearly validates the soundness of the strategy put in place at the beginning of 2008. The foundations of our growth have been – and remain – an unwavering focus on customer service excellence, best practice risk management, and qualified staff who discharge their duties with professionalism and enthusiasm.

Combined with our outstanding capital and liquidity positions, the Bank now has all the essentials in place and is poised for a new and sustainable phase of growth. We plan to introduce new products, new businesses and services, and to customise our existing products and services to meet growing customer expectations and evolving needs. The next step is regional expansion. We are making concerted efforts to increase our presence beyond the UAE and Egypt, having opened an operation in Iraq during 2010.

The achievements in 2010 look particularly impressive when compared in percentage terms to 2009 results. However, I believe that we should not be flattered by year-on-year profit growth of 1,212 percent, but instead should focus on the trend line from 2008. During 2009, we made exceptional provisions for impairment that, by definition, severely affected the year's performance. It is now well-recognised that the decisive cost of credit action taken then was not only market-leading but pre-empted the new UAE Central Bank guidelines in regard to provisioning and the recognition of non-performing accounts.

It is noteworthy that our total credit provisions and impairments have increased to AED 2.85 billion (from AED 404 million at the end of 2007) as the legacy portfolio of old investments and credits from before the financial crisis have been further reviewed. The efforts of the two remedial management units are now clearly visible and we will continue to work with those customers who are in genuine difficulty and actively engage with and assist them in the sustainable restructuring of their financing. We have also taken appropriate individual positions on the impaired portfolio, as well as a conservative collateral recognition approach, in line with Central Bank regulations.

I am also very encouraged by the number of honours conferred on ADIB during 2010. We were named 'Best Islamic Bank' in four separate banking awards schemes, and 'Most Improved Bank in Customer Service' in an independent survey of banking service excellence. Our goal was to be ranked in the top five banks in the UAE by service quality and we exceeded the target by entering the top three. We are clearly succeeding in our efforts to give our customers a superior banking experience.

The emphasis we place on continued staff training at all levels, and on enhancing the professional qualifications of all team members, is yielding well-earned dividends. Our 44 percent level of Emiratisation leads the banking sector and we have announced a host of programmes to sustain and grow this figure.

While all banking units recorded highly creditable results in 2010, Retail Banking and Wholesale Banking are particularly worthy of mention. Retail Banking accounted for AED 2 billion of total revenue. The 14 new branches opened brought the total to 66 – exceeding the target for end 2010 of 64. Wholesale Banking increased revenue by 24 percent in a year of intense market activity, characterised by the growth of quality names in the portfolio. Key deals were concluded in strategic infrastructure projects in Abu Dhabi, winning many international awards.

In 2010, we were able to maintain our position as one of the most liquid banks in the UAE, and made a successful return to international capital markets with the issue of a benchmark \$750 million sukuk at a profit rate of 3.745 percent.

Of our two Group subsidiaries, the rebranded ADIB Securities – our stockbroking operation – performed commendably in exceptionally difficult market conditions, posting a profit of AED 4.3 million for the year.

Burooj Properties, the Group's real estate subsidiary continue to take provisions, resulting in a further AED 119.5 million in impairments for the year. While Burooj's portfolio represents less than 3.8 percent of ADIB's total assets, we remain concerned about the future uncertainties of real estate values in UAE and the potential need to take more impairment losses.

Looking ahead to 2011, we expect another year of muted global economic activity and an increasingly-competitive operating environment. ADIB is well-positioned to rise to the challenges, maintaining a clear growth trajectory. We will continue to focus on building our banking and financial service businesses – in the UAE and abroad – as opportunities present themselves.

While the brunt of the legacy portfolio's cost of credit was absorbed in 2009, and we took further remedial action in 2010, we will continue with a policy of caution and prudence, including further impairments in the Burooj Properties real estate portfolio, particularly as the market begins to force its terms on buyers and sellers.

Nevertheless, we are confident that 2011 will see a repeat of the sustainable improvements achieved in 2010, as ADIB continues to lead the market in Islamic banking that meets or exceeds our customers' needs, making us the region's bank of choice for diversified Shari'a-based products.

The past year was pivotal in demonstrating ADIB's capabilities and the Bank's inherent potential for even better performance. We remained constant in our determination to achieve our vision while staying true to our values and the fundamental principle that underpins everything we do: customer and staff satisfaction.

Satisfaction is at the heart of our aspirations and we will therefore continue to reaffirm our commitment to excellence in customer service and in enabling our employees to provide it, maintaining our status as bank and employer of choice.

We are always aware that, in doing so, we are dependent on the support of loyal customers, shareholders and staff, as well as that of the Federal and Abu Dhabi Governments. It is my pleasure to thank you all for your magnificent contribution to ADIB's success in 2010.



Tirad Mahmoud
Chief Executive Officer

Business Review

The best testimony to Retail Banking's achievements lies in the endorsement of service quality by external and independent assessment. The Ethos Consultancy ranked ADIB as 'Most Improved Bank' and 'Best Call Centre' in its Service Quality Benchmarking survey. Overall, ADIB moved into the top three banks in terms of customer service.

Retail Banking

Retail Banking is not only the 'shop window' of ADIB's operations – provider of the everyday services required by the vast majority of the Bank's customers – it is also fundamental to the Bank's overall performance, both financially and in its role as a respected institution.

During 2010 the Retail Banking unit discharged its responsibilities with distinction, particularly in the most important area: placing customers at the heart of its activities, and providing a range of products and services that attract new clients while ensuring retention of the existing customer base.

The key strategic aims of Retail Banking are: growth in the network and customer base throughout the UAE; the development of new channels and products to meet customer demand; and continued improvement in service delivery, efficiency and quality.

Success in meeting these strategic aims was highly evident in 2010, when the customer base grew by 33 percent to 409,000 – 18,000 ahead of target – and total revenue reached AED 2 billion, a 57 percent increase over the previous year. The performance was all the more striking coming after impressive growth in 2009, when customer numbers increased by 27 percent and revenue by 39 percent.

During the year, 14 new branches were opened across the UAE, bringing the total to 66 – two more than the target for 2010 and giving ADIB the biggest Islamic banking distribution network in the country. Customer convenience was further enhanced by the opening of 119 ATMs, making a total of 323 across the UAE.

But the best testimony to Retail Banking's achievements lies in the endorsement of service quality by external and independent assessment. The Ethos Consultancy ranked ADIB as 'Most Improved Bank' and 'Best Call Centre' in its Service Quality Benchmarking survey. Overall, ADIB moved into the top three banks in terms of customer service and was ranked second in banking visibility. The Bank's 'Ghina' saving programme won 'Best Savings Account' at the Banker Middle East Product Awards.

Notable product development and innovation during the year included the launch of ADIB's payroll card, a co-branded Etihad card and a football card that gives fans the opportunity to use a card linked to their own teams. ADIB also became the first UAE bank to launch interactive mobile financial services. Unlike SMS banking, the technology enables customers to conduct secure real-time transactions through their mobile phones and access information on a broad range of banking services offered by ADIB.

Wholesale Banking

The Wholesale Banking unit achieved stellar performance in 2010 and achieved a 24 percent growth in revenue, underpinned by expanding products and services, with new customer acquisition and landmark financing deals. Today, WB offers a wide range of Shari'a-compliant Islamic Banking solutions to corporates, financial institutions and government and public sector clients. It continually strives to expand and innovate by providing tailor-made pure Islamic banking solutions to our clients. The Corporate Banking client profile is segmented into government and public sector entities, contracting and real estate, and trading and manufacturing, served by matching divisions in Abu Dhabi and Dubai. The Financial Institutions division continues to build a substantial network of correspondent banking relationships around the world, enhancing ADIB's capacity to service the needs of its customers internationally by facilitating and financing their transfers and trade transactions. The Wholesale Bank also offers leading product capabilities in Corporate Finance and Investment Banking, and Global Transaction Services.

The Corporate Finance and Investment Banking unit was ranked among the top bookrunners on international league tables as the #1 UAE Islamic Bookrunner and #2 MENA Islamic Bookrunner in 2010 (source: Thomson Reuters). The team also worked on several landmark Islamic Project Finance transactions in the region and excels in project finance structuring / advisory, winning the prestigious "UAE Deal of the Year award for the USD1.1 billion Project Finance for Emirates Steel (source: Islamic Finance News).





Global Transaction Services is increasingly in the forefront of developments in Islamic Cash Management and Trade Finance. And it has proven to be an efficient and reliable collections partner to major enterprises in UAE.

ADIB's payment solutions cover the complete spectrum of domestic and international transactions, and has culminated in Global Transaction Services writing substantial new business in payroll management and cash collection, adding notable clients such as Etihad and ADNOC to an already distinguished list.

Substantial deals concluded during the year took ADIB to first place in the UAE table of Islamic bookrunners and to number two in the entire Middle East North Africa region in 2010, including:

- Hyundai – Borouge project: AED 856 million
- Al Jaber Transport – Shah Gas project: AED 538 million
- ED-Zublin – Sheikh Khalifa Port: AED 78 million
- Consolidated Contracting – Presidential Palace project: AED 180 million
- Ghantout Contracting – Presidential Palace project: AED 180 million
- Tri Star: AED 400 million
- Gulf Marine Services – ship financing: AED 183 million Vessel Finance Facility
- Emirates Steel Industries: USD1,100 million syndicated Project Finance Facility for expansion
- Waha Offshore Marine Services: AED 115 million Structured Ijara Finance

- National Petroleum Construction Co: AED 376 million Vessel Finance Facility
- Majid Al Futtaim Properties: AED 1,140 million Syndicated Ijara Finance

The achievements of 2010 reflect a year of intense market activity, particularly taking advantage of opportunities arising in Abu Dhabi and Dubai as the UAE continues to grow. Wholesale Banking has received a number of awards including:

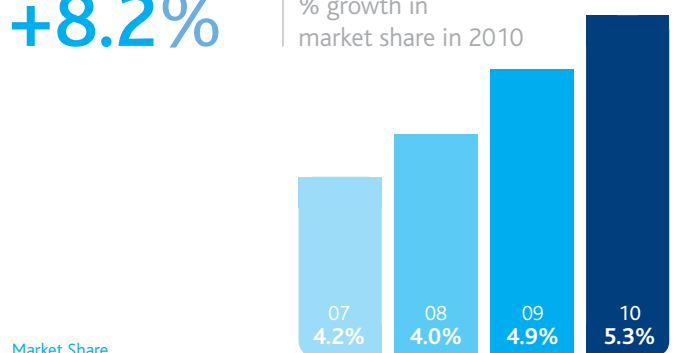
- EMEA Best Islamic Syndicated Facility: Majid Al Futtaim Properties' AED1.14bn facility
- UAE Deal of the Year award for the USD1.1 billion Project Finance for Emirates Steel – Islamic Finance News
- Middle East Islamic Financing Deal of the Year Award 2011 for USD1.1 billion Project Finance for Emirates Steel – Euromoney



Customer Deposits

+8.2%

% growth in market share in 2010



Private Banking and Wealth Management

Private Banking is aiming to excel and position itself as a prominent UAE-wide private bank, then grow regionally and globally.

In 2010 Boston Consulting Group was appointed to oversee Private Banking and Wealth Management activities, and to plan a re-launch with all the functional capabilities of a global private bank.

The functions of the two divisions were aligned and merged to achieve optimum results, and in 2011 the Private Banking Group will be re-launched.

In view of the prevailing economic climate, 2010 was a year of consolidation for our private clients. Appetite for risk-taking was low and market conditions placed severe restrictions on traditional areas of growth, such as real estate. As a result, financing in this division was limited to a few projects, resulting in slower growth in financing assets and deposits.

However, in response to these conditions ADIB created three new protected products, linked to oil and gold and offering secured returns. All were well-received and the Bank attracted a combined investment of more than AED 180 million, primarily from clients in the high net worth and Priority Banking categories.

In Wealth Management, the launch of the four-step ADIB wealth management process introduced a unique benefit for clients seeking to maximise their resources while balancing their risk exposure. The system introduces a disciplined regimen of investment analysis and asset allocation, with relationship managers assisting clients to identify the optimum spread of returns most appropriate to their requirements and circumstances.

Treasury

Treasury plays a key role in managing the liquidity and foreign exchange requirements of ADIB and its clients, while also advising clients on financial markets to provide them with risk management solutions on currencies and rates.

Treasury works closely with Corporate Banking and Private Banking & Wealth Management in assessing customer needs and delivering tailor-made Islamic structures to meet those needs, and is also active in international sukuk and equity trading.

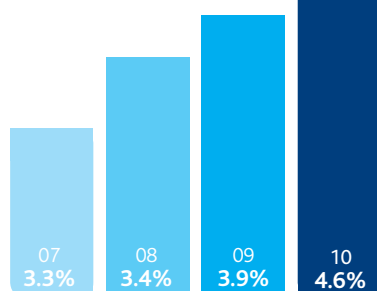
High volatility, coupled with events in the Eurozone and credit market, made 2010 a challenging year, with conditions that made trading in financial markets very complicated – particularly in sukuk and equities. Nevertheless, the department succeeded in providing its partners with high-quality and innovative services throughout the year.

Especially noteworthy was ADIB's return to the international capital markets, with the successful closing of a second issuance under its EMTN sukuk programme. The oversubscribed uptake of the USD750 million sukuk underlined the strength of ADIB's standing within the international financial community, reinforced by the award from EMEA Finance for 'Best Sukuk Deal' of the year.

Customer Financing

+17.9%

% growth in market share in 2010



Market Share

The Wholesale Banking unit achieved stellar performance in 2010 and achieved 24 percent growth in revenue, underpinned by expanding products and services, with new customer acquisition and landmark financing deals.

The year also saw the launch of ADIB's first structured products, marketed through Wealth Management, thus enlarging the scope of opportunities offered to the Bank's clientele.

The launch of full-capacity Capital Markets activity saw ADIB again prove its leadership in innovation and commitment to the industry, by taking a leading role as a main contributor and participant in the introduction of Islamic Certificates of Deposit by the UAE Central Bank in the fourth quarter.

Operations and Technology

Operations and Information Technology (O&T) are crucial to ADIB's day-to-day operations, and to fulfilling the objectives of sustained growth and continued service quality improvement.

Strategic investments in O&T during 2010 enhanced capability to support business growth through process efficiency and workflow automation. IT strategy was reviewed by McKinsey, and the recommendations will be implemented in 2011.

Meantime, key senior positions were filled and the organisational structure realigned to better serve the department and its internal clients. In working towards best-in-class operations, customer service facilities have been significantly enhanced and ADIB's core banking platform upgraded and stabilised. A robust disaster recovery plan is now in place and an enterprise resource planning system has been implemented to facilitate procurement and payments.

Human Resources

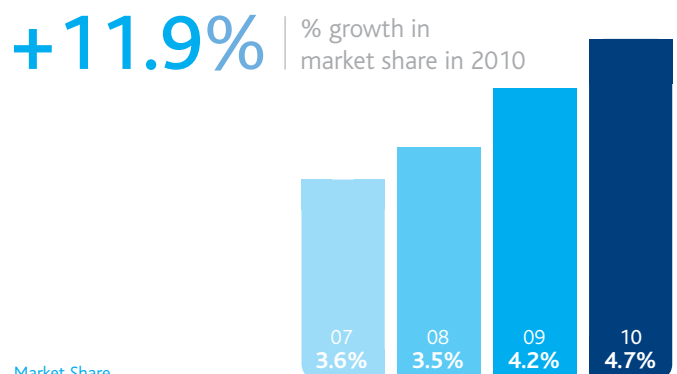
ADIB leads the banking industry in its drive to recruit UAE nationals and, at a ratio of 44 percent of the total of 1,672 employees, has one of the highest levels of Emiratisation in the entire sector. In further developing the proportion of UAE nationals in the Bank's workforce, ADIB focuses strongly on events such as Careers UAE, where the Bank was a platinum sponsor in 2010.

The Bank has also signed memoranda of understanding with five universities in its efforts to sign graduate recruits and introduce undergraduates to the attractions of a career in banking. Signatories are Dubai American University, Emirate institute for Banking and Finance (EIBFS), Al Hosn University Abu Dhabi, Abu Dhabi University and UAE Higher Colleges of Technology.

The Bank's 'Pioneer' and 'Management Associate' programmes are conducted in association with the Emirates Institute of Banking and Financial Studies (EIBFS) and other companies, graded programmes that take students from the basics of banking through to advanced qualifications.

In fact ADIB is far and away the front-runner in an undertaking between EIBFS and four UAE banks to recruit a specific number of UAE nationals, having taken on more than 100 new appointees in the past 18 months. In addition, summer internships are arranged in partnership with the Abu Dhabi Tawteen Council to create career opportunities for talented young Emiratis.

Total Assets



International Operations

Egypt National Bank for Development

ADIB acquired a 49 percent interest in National Bank for Development (NBD) in 2007. Since then, NBD has made excellent progress towards becoming fully Shari'a-compliant by early 2011, when it will be one of only three Islamic banks in Egypt.

Its achievements in this direction were recognised last year when NBD was named Egypt's 'Best Islamic Bank' by Islamic Finance News.

The Bank introduced two new products in 2010: an Islamic bond (sukuk), and a personal finance product called Yusr Marhaba. Both are fully Shari'a-compliant and approved by NBD's Shari'a advisory board.

Their launch extends a range of quality products and services such as Auto Marhaba, which has rapidly become a market leader.

NBD, with its network of 69 branches, focuses on consumer and wholesale segments. By leveraging ADIB's expertise and success in growing its UAE franchise, NBD is able to compete on service and products with the best international banks.

The majority of customer assets and deposits are now Shari'a-compliant and the Bank has entered into agreements with a number of other Egyptian banks to invest in Shari'a-compliant liquidity structures.

Significant investments were made in 2010 to enable future growth, including implementation of a new core banking system, introduction of new products, and renovation of 22 branches. Several were relocated to create better market opportunities.

These developments, together with continued recruitment of high-calibre talent, enabled NBD to grow customer assets by 98 percent and deposits by 16 percent. The Bank is well placed for future growth as Egypt's new political structure stabilises.

Bank Branches' Network

Abu Dhabi Area (West)

1. Al Najda Street
2. Mushref
3. Khalidiya Men
4. Khalidiya Ladies
5. Al Muroor
6. Khalifa Street
7. Sheikh Khalifa Energy Complex
8. Al Mina
9. Abu Dhabi Municipality
10. Abu Dhabi Immigration
11. Al Wahda Mall
12. Al Bateen – Main Branch
13. ADIA Cash Office
14. Marina Mall
15. Abu Dhabi Shari'a Court

Abu Dhabi (East)

16. Madinat Zayed
17. Baniyas
18. Mussafah
19. Al Ruwais
20. Bin Al Jesrain
21. Al Rahba
22. Abu Dhabi International Airport
23. Madinat Zayed Immigration
24. Al Sila
25. Al Marfaa
26. Dalma Mall-Musaffah
27. Delma Island
28. Liwa

Al Ain

29. Al Ain Main
30. Al Jimi
31. Sanayia
32. Al Yahar
33. Al Murabba
34. Al Ain Municipality
35. Al Ain Immigration
36. Al Wagan
37. Al Ain Ladies
38. Al Hayer
39. Al Bawadi Mall

Dubai

40. Deira
41. Sheikh Zayed Road
42. Al Twar
43. Dubai Internet City
44. Al Mamzar
45. Dubai Mall
46. Al Mohaisnah
47. Al Rigga
48. Al Warqaa
49. Jumeirah
50. Nad Al Hamar
51. Oud Metha

Sharjah

52. Sharjah Main
53. Khorfakkan
54. Al Wasit
55. Al Dhaid
56. Al Taawoun Mall
57. Al Buhairah
58. Kalba

Ajman

59. Ajman Main
60. Ajman Corniche

Fujairah

61. Fujairah
62. Dibba

Ras Al Khaimah

63. Ras Al Khaimah
64. RAK Airport Road
65. Al Hamra Mall

Umm Al Quwain

66. Umm Al Quwain

Branch Management



Mr. S Awadallah



Mr. A Bu Shager



Mr. A Abdulla



Mr. A Al Najar



Mr. S Al AlKeem



Mr. A Mesarri



Mr. Y Jaafar



Mr. E Nagdy



Ms. E Al Alili



Mr. A Al Mulla



Mr. H Al Shamsi



Mr. Z Al Khazraji



Mr. F Shami



Mr. M Al Dhanhani



Mr. H Kader



Mr. T Al Bahri



Mr. Y Albairaq



Mr. F Al Rais



Mr. J Al Attas



Mr. K Al Hosani



Mr. H Al Shateri



Mr. M Al Hajeri



Mr. M Al Khoori



Mr. M Barghouth



Mr. A Al Hammadi



Mr. A Al Melhi



Mr. H Al Hosani



Mr. Y Al Hammadi



Mr. A Al Balooshi



Mr. A Al Boloshi



Mr. A Al Dhaheri



Mr. H Ali Al Naqeeb



Mr. I Al Baloushi



Mr. A Mansour



Mr. M Zainal



Mr. H Al Saadi



Mr. I Al Qasser



Mr. H Al Zaabi



Mr. S Al Braiki



Mr. Y Ahli



Mr. Y Salha



Mr. M Hassan



Mr. A Al Nuaimi



Mr. E Al Kaabi



Mr. A Al Balghouni



Mr. M AlTunaiji



Mr. S Al Askar



Mr. H Tamimi



Mr. A Zaabi



Mr. S Al Shaali



Mr. A Al Mutairi



Mr. K Al Kaabi



Mr. A Al Neaimi



Mr. A Al Shehhi



Mr. O Alrais

Mr. S Ibrahim
Mr. S Al Marzouqi
Mr. S Ali
Mr. R Al Mutawwa
Mr. S Al Darmaki
Mr. M Al Mehairy
Ms. M Al Darmaki

Mr. S Al Dhaheri
Mr. S Al Saeedi
Mr. N Al Abdool
Mr. A Al Shammaar
Mr. M Al Balooshi
Mr. A Waheedi
Mr. S Al Shehhi

Financial Services Business Review

ADIB Securities

ADIB's stock-brokerage subsidiary was rebranded as ADIB Securities in 2010, having previously traded as Abu Dhabi Islamic Financial Services.

In a difficult year for brokers, which saw a dramatic decline in the number of licensed operators and the volume of stock market transactions, ADIB Securities reversed the trend and increased market share to more than 5.0 percent – recording a profit of AED 4.3 million and successfully managing expenses in line with deteriorating market volumes.

The launch of online trading has improved client service and created a welcome new channel for conducting business. This is reflected in improved service levels, with an average customer satisfaction rate of 90 percent for the year. ADIB Securities now ranks fourth in the UAE brokerage industry and first in Shari'a-compliant brokerage. Going forward, ADIB Securities is now better positioned, reporting directly to ADIB Private Banking Group. This will strengthen the company's client reach by focusing on this segment, as well as other segments throughout the Bank.

Abridged Balance Sheet

31 December

	2009 AED Million	2010 AED Million
ASSETS		
Bank balances and cash	77.2	41.7
Investments in equities	0.1	0.1
Account receivables and prepayments	9.0	16.8
Property and equipment	3.6	5.2
Total Assets	89.9	63.8
LIABILITIES		
Accounts payable and accruals	32.6	2.3
	32.6	2.3
EQUITY		
Share capital	30.0	30.0
Retained earnings and other reserves	27.3	31.5
	57.3	61.5
Total Liabilities and Equity	89.9	63.8

The above financial results are consolidated line by line in the Abu Dhabi Islamic Bank's Consolidated Financial Statements as required by *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

Abridged Income Statement

For the year ended
31 December

	2009 AED Million	2010 AED Million
Commission Income	22.0	17.4
Investment Income	(1.0)	-
Other revenues	1.2	0.8
Total Revenues	22.2	18.2
Total expenses	(16.9)	(13.9)
Provision for impairment	(0.2)	-
	(17.1)	(13.9)
Profit for the year	5.1	4.3

Non Financial Services Business Review

Burooj Properties

The Real Estate industry was one of the most impacted during the latest global economic crisis, and recent regional political turmoil. ADIB's real estate subsidiary did not escape unscathed, as we post another year of loss at 196.1 million (mainly driven by provision impairment of 119.5 million) after last year's deficit of 29.7 million.

Nevertheless, cost rationalisation as well as building enduring and mutually beneficial relationships with business partners were at the heart of the business, mainly achieved by focusing on customer requirements, addressing their needs and exceeding their expectations despite the difficult market conditions.

On the other hand, MPM, Burooj Properties' property management subsidiary, had a successful year and increased the number of properties assigned to it from 12,000 to 22,000 in the course of only one year, including a deal with the Abu Dhabi Government's Department of Minor Affairs to manage its portfolio of more than 4,500 units. Smaller such deals were also concluded with other Government departments.

Abridged Balance Sheet

31 December

	2009 AED Million	2010 AED Million
ASSETS		
Bank balances and cash	240.4	134.7
Investment in properties	1,137.8	1,242.1
Investments in equities	174.2	141.9
Advance against purchase of properties	1,289.0	1,174.1
Property and equipment	10.0	9.4
Other receivable	618.9	206.1
Total Assets	3,470.3	2,908.3
LIABILITIES		
Murabaha payable	2,240.4	1,997.5
Notes payable	91.0	-
Other payables	439.2	423.9
	2,770.6	2,421.4
EQUITY		
Share capital	500.0	500.0
Retained earnings and other reserves	199.7	(13.1)
	699.7	486.9
Total Liabilities and Equity	3,470.3	2,908.3

The above financial results are consolidated line by line in the Abu Dhabi Islamic Bank's Consolidated Financial Statements as required by *International Accounting Standard 27 – Consolidated and Separate Financial Statements*.

Abridged Income Statement

For the year ended
31 December

	2009 AED Million	2010 AED Million
Investment revenues	35.9	(76.2)
Fees and commissions	62.8	67.8
Other revenues	(1.4)	13.5
Total Revenues	97.3	5.1
Total expenses	(86.9)	(82.4)
Provision for impairment	(40.9)	(119.5)
	(127.8)	(201.9)
Loss for the year	(30.5)	(196.8)

Corporate Social Responsibility

Commitment to Corporate Social Responsibility is an unwavering principle for ADIB, since we are conscious that the company impacts in many different ways on the communities in which it operates. As a result, the Bank has developed a series of CSR initiatives that are tailored to very specific community needs.

A prime priority is encouraging the Bank's large contingent of Emirati employees to become top-notch bankers by enlisting in the Pioneer and Management Associate programmes that advance professional education and skills.

ADIB also provides summer internships for talented UAE students, partnering with the Abu Dhabi Tawteen Council to create career opportunities for them and meet the demand for Emiratis to play a leadership role in the banking sector and advance the national economy.

In this respect, ADIB has led the banking industry in its drive to recruit UAE nationals and now has one of the highest Emiratisation ratios in the sector. Platinum sponsorship of events such as Careers UAE 2010 further highlights the Bank's commitment to building up its UAE national workforce by attracting and recruiting Emiratis.

Although every effort is made to provide job security, ADIB will not – and does not – tolerate poor performance. However, through proper training and development of the UAE nationals in the workforce, the issue of job security is replaced with a focus on career growth and development. This in turn increases staff productivity and the overall contribution of UAE nationals, better positioning them to play a meaningful role in the development of the country's economy into the future.

For the past five years, ADIB has facilitated the organisation of mass weddings for UAE nationals and members of the Emirates' tribes. This is a tradition revived by the late President HH Sheikh Zayed bin Sultan Al Nahyan (may Allah bless his soul) to preserve national culture and tradition by financing marriages between Emiratis. We are honoured to continue on his prescribed path and thus reinforce the integrity of our culture and values.

In postponing the payment of instalments for Murabaha customers during the Holy Month of Ramadan, we have also led the UAE banking sector. The move, designed to help customers save money during a month that often proves one of the most costly in a year, has been implemented as a goodwill gesture on behalf of the Bank as part of its ongoing Ramadan and Eid Al Fitr celebrations.

ADIB has played a pioneering role in bringing ethics in business to the fore by signing a memorandum of understanding with the Higher Colleges of Technology (HCT) to create the region's first academic institute specialising in the subject.

The ADIB Institute of Islamic Economics and Business Ethics will highlight the importance of doing business ethically, raise public awareness of the issue, and help organisations to strengthen their ethics culture. The Institute's activities aim to encourage high standards of business conduct and provide guidance to employees on ethical behaviour. It will deliver training for corporations and SMEs, and publish research papers and surveys about ethical practices and principled business conduct.

Producing reports to identify solutions to ethical business dilemmas, organising workshops and debates to facilitate the sharing of best practice, and educating business through inclusion of business ethics in various curricula, will form part of the Institute's visible endeavours.

The Institute will be an independent, self-sustaining organisation generating revenues from subscription to workshops and seminars, reports on codes of ethics for corporations, consulting services, development of university curricula, and annual membership fees.

ADIB has become the exclusive official bank of the UAE Football League with a view to supporting its activities, developing the game in the UAE, and assisting in taking it to much higher levels of performance. Our 'ADIB Football' Visa card is the first football card in the UAE that offers fans the opportunity to express their support for football and to win a bonanza of football-related experiences. With this card, ADIB will also give back to the community by donations to the clubs and fan-focused promotions.

ADIB's sponsorship of the UAE Red Crescent's activities for Ramadan has continued without interruption for the past six years. The Bank supports the charity's annual Ramadan campaign, providing 160,000 Iftar meals for needy people at multiple locations across the UAE.



Corporate Governance Report

Corporate governance is a matter of vital importance to us and a fundamental part of the culture and business practice of the Abu Dhabi Islamic Bank and its subsidiaries and affiliates ('the Group'). The Group is committed to the adoption of global best practices to improve governance and transparency and enhance the management and oversight of risk, as well as promoting the highest standards of audit and compliance accountability.

The Group has complied with the guidelines of the UAE Central Bank as well as corporate governance leading practices. The Group has a formal Corporate Governance Code wherein the Charter of the Board of Directors, the Code of Ethics for Board members, and policy for Insider Trading have been formalised.

Board of Directors

The Board is the principal decision-making forum for the Group. It has overall responsibility for leading and controlling the Group and is accountable to shareholders for financial and operational performance.

The Board has all the necessary powers to carry out its responsibilities, as provided by Federal Law No. 8 of 1984 concerning Commercial Companies, as amended, the Memorandum of Association, the Abu Dhabi Islamic Bank's Articles of Association, resolutions of the General Assembly, or any other relevant laws or regulations.

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Group has set the criteria for Independent Directors and Non-Executive Directors and these continued to be met during 2010.

The names of the Directors as 31 December 2010 were:

Name	Position
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
Mr. Khaled Abdulla Neamat Khouri	Vice Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Khamis Mohamed Buharoon	Member
Mr. Abdulla bin Aqeeda Al Muhairi	Member
Mr. Ragheed Najeeb Shanti	Member
Dr. Sami Ali Al Amri	Member

The roles of the Chairman, Chief Executive Officer and the Executive Chairman of Burooj are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all Directors. Since inception the Financial Services and Real Estate businesses have been run independently, and on an arm's-length basis under the Abu Dhabi Islamic Bank (Financial Services) and Burooj (Real Estate) business structures respectively. The Chief Executive Officer has responsibility for all Group Financial Services businesses, while the Executive Chairman of Burooj has responsibility for the Real Estate businesses in UAE. They each act in accordance with the authority delegated by the Board. Responsibility for the development of policy and strategy and operational management is delegated to the Chief Executive Officer or the Executive Chairman of Burooj and their senior management teams, as appropriate.

All Directors participate in discussing strategy, financial and operational performance and the risk management of the Group. Meetings of the Board are structured to allow open discussion.

The Board establishes the rules relating to administrative, financial and employee matters of the Group and sets out the requirements for the conducting of Board business and meetings, and the respective roles and responsibilities of the Board members.

There were seven scheduled Board meetings during 2010. The Directors were supplied with comprehensive papers in advance of each Board meeting, covering the Group's principal business activities. Members of management attend and make regular presentations at meetings of the Board.

Board balance and independence

In 2010 the Board comprised the Chairman, Vice Chairman and five other Board members. The majority of the Board members are UAE nationals, as required by the Federal Commercial Companies Law and the Bank's Article of Association. The Board functions effectively and efficiently and the Directors provide the Group with the knowledge, mix of skills, experience and networks of contacts required. The Board Sub-Committees comprise Directors, as well as external independent subject matter experts with a variety of relevant skills and experience, so that no undue reliance is placed on any individual.

Re-election of Directors

The previous Board's term expired in early 2010. In compliance with the Bank's Article of Association, the shareholders elected the existing Board members in the Annual General Meeting held on 21 April 2010, including six members who sought re-election.

Information, induction and ongoing development

All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal & Corporate Secretary who, together with the Head of Governance and Compliance, is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

A formal induction process exists for each new Director on joining the Board, including visits to the Group's major business areas and meetings with other Directors and senior management. The Group provides the necessary professional development that Directors consider necessary to assist them in carrying out their duties as Directors.

Performance evaluation

In 2010, a formal procedure was introduced in order that the Board could undertake a formal evaluation of its own performance and that of its committees and individual Directors.

Board Committees

In 2010, the Board Committees were revised to reflect the requirements of Corporate Governance guidelines of the Central Bank of the UAE and best practice standards of Corporate Governance.

The new Committees of the Board are:

- Strategy Execution Committee;
- Audit Committee;
- Risk Policy Committee;
- Remuneration Committee; and
- Nomination Committee.

Strategy Execution Committee

The Committee has been given delegated authority by the Board to assist the Group's executive management team in the execution of Group strategy and achieving the Group's strategic objectives.

The Strategy Execution Committee has the following mandate:

- Review, consider, discuss and challenge the relevant recommendations submitted by the relevant management within the Group;
- Work with the relevant management to make recommendations to the Board on strategy and the long-term objectives of the Group;
- Review and approve the delegation of approval authority to management with regard to the overall policies and procedures of the Group;
- Approve the authorities delegated to the Group's executives;
- Approve significant and very high-value transactions with regard to credit facilities, acquisitions and divestures, new business initiatives and proprietary investments;
- Review the proposal from management for establishment of branches, subsidiaries, and new joint ventures and their related budgets, and forward to the Board for strategic decisions; and
- Review and make recommendations to the Board on any material related transactions.

Members of the Strategy Execution Committee are:

Name	Position
Mr. Ragheed Najeeb Shanti	Chairman
Mr. Tirad Mahmoud – Chief Executive Officer	Vice Chairman
Mr. Khaled Abdulla Neamat Khouri	Member
Mr. Khamis Mohamed Buharoon	Member
Dr. Sami Ali Al Amri	Member

Audit Committee

The Audit Committee was appointed to assist the Board in fulfilling its oversight responsibilities in respect of the Group.

The mandate of the Audit Committee is:

- To assist the Board in fulfilling its oversight responsibility relating to the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and operational risk management;
- To review the performance of the internal audit function;
- To review the annual independent audit of the Group's consolidated financial statements and internal controls over financial reporting;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence, and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

In 2010, the Committee received all the information and material it required to allow it to meet its obligations in respect of the 2010 financial statements and other mandated responsibilities.

Members of the Audit Committee are:

Name	Position
Mr. Abdulla bin Aqeeda Al Muhairi	Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Salem Sultan Al Dhaheri	Member and Subject Matter Expert

Risk Policy Committee

The Risk Policy Committee of the Board assists the Board in fulfilling its oversight responsibilities in respect of the following risks inherent in the businesses of the Group and the related control processes:

- Approving and recommending to Board of Directors, when necessary, the policy, standards and guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risks inherent in the businesses of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Reviewing and approving ICAAP (Internal Capital Adequacy Assessment Process) and Basel II implementation

Members of the Risk Policy Committee are:

Name	Position
Mr. Arthur Grandy	Chairman and Subject Matter Expert
Mr. Tirad Mahmoud – Chief Executive Officer	Vice Chairman
Mr. Juma Khamis Al Khaili	Member
Mr. Khamis Mohamed Buharoon	Member
Mr. Ragheed Najeeb Shanti	Member
Mr. Masarrat Husain – Group Chief Risk Officer	Non-voting member

Remuneration Committee

The Remuneration Committee has been appointed by the Board to assist it in fulfilling its oversight responsibilities in respect of the following for the Group:

- Review the selection criteria and the number of executive and employee positions required by the Group; and
- Review on an annual basis the policy for the remuneration, benefits, incentives and salaries of all Group employees.

Members of the Remuneration Committee are:

Name	Position
Mr. Juma Khamis Al Khaili	Chairman
Mr. Khaled Abdulla Neamat Khouri	Member
Dr. Sami Ali Al Amri	Member
Mr. Noble Powar	Member and Subject Matter Expert

Nomination Committee

The Nomination Committee has been appointed by the Board to assist it in fulfilling its oversight responsibilities in respect of the following for the Group:

- To lead the process for Board members' appointments and re-appointment;
- Make recommendations to the Board for succession of Directors; and
- Ensure the independence of the Independent Directors at all times.

Members of the Nomination Committee are:

Name	Position
H.E. Jawaan Awaidha Suhail Al Khaili	Chairman
Mr. Juma Khamis Al Khaili	Member
Dr. Sami Ali Al Amri	Member

Corporate Governance Report continued

Meetings

The Board of Directors meets regularly, and Directors receive information between meetings about the activities of management committees and developments in the Group's business.

The number of scheduled meetings of the Board and Board Committees and individual attendance by members in 2010 are shown below:

Board meetings and attendances

Board Members	Status	Board	Executive Committee (1)	Strategy Execution Committee (2)	Audit Committee	Risk Policy Committee (2)	Remuneration Committee (5)	Nomination Committee (6)
		7 Meetings	18 Meetings	7 Meetings	4 Meetings	1 Meeting		
H.E. Jawaan Awaidha Suhail Al Khaili	Non-Executive	5						
Mr. Khaled Abdulla Neamat Khouri	Independent	7	12	5				
Mr. Juma Khamis Al Khaili	Independent	6			4	-		
Mr. Khamis Mohamed Buharoon	Non-Executive	6	15	6		1		
Mr. Abdulla bin Aqeeda Al Muhairi (3)	Independent	5			1			
Mr. Ragheed Najeeb Shanti	Non-Executive	7	18	7		1		
Dr. Sami Ali Al Amri	Independent	7		6				
Other Members								
Mr. Tirad Mahmoud (4)	Chief Executive Officer			7		1		
Mr. Salem Sultan Al Dhaheri	Subject Matter Expert				4			
Mr. Arthur Grandy (4)	Subject Matter Expert					1		
Mr. Noble Powar	Subject Matter Expert							
Mr. Masarrat Husain (4)	Group Chief Risk Officer					1		

Notes:

- 1) The Executive Committee's mandate ended in September 2010 and its various functions were shifted to the new Board committees.
- 2) The new committees were formed by Board Resolution in September 2010 and the meetings reflected are for the 4th quarter of 2010.
- 3) Joined the Board in April 2010 and Audit Committee in June 2010.
- 4) Appointed to the respective Board committees by Board resolution in September 2010.
- 5) The Remuneration Committee started its mandate in Q1 2011 to approve the 2010/2011 compensation policy for ADIB.
- 6) The Nomination Committee will started its mandate in 2011 and therefore no meetings were held in the period between its establishment and the end of the period under review.

Directors' remuneration and interests in the Group's shares

Directors' remuneration is approved at the Annual General Meeting. During 2010 the amount of remuneration paid to the directors was AED 3 million. In addition, Board members also receive AED 3 000 by way of an attendance fee for every Board meeting or Board Committee meeting they attend.

Directors' interests in the Group's shares are as follows:

Board Members	Shareholding at 1 January 2010	Shareholding at 31 December 2010*	Changes in shareholding
H.E. Jawaan Awaidha Suhail Al Khaili	36,617,590	43,941,108	7,323,518
Mr. Khaled Abdulla Neamat Khouri	-	-	-
Mr. Juma Khamis Al Khaili	4,290	5,148	858
Mr. Khamis Mohamed Buharoon	2,280	2,736	456
Mr. Abdulla bin Aqeeda Al Muhairi	3,633	-	3,633
Mr. Ragheed Najeeb Shanti			
Dr. Sami Ali Al Amri			

* The increase in shares reflects the distribution of 20% bonus shares to all shareholders during 2010.

External Auditors

The Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditors and the effectiveness of the external audit process. The outcome of this evaluation is considered by the Board, together with the Audit Committee's recommendation on the re-appointment of the external auditor.

The Audit Committee is responsible for making recommendations to the Board, so that it can submit the Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting in relation to the appointment, reappointment and removal of the external auditors. The shareholders approved the appointment of Ernst & Young as the external auditors of the group for 2010 at the Annual General Meeting held in April 2010.

The Audit Committee also reviews the remuneration of the external auditors and the terms of engagement of the external auditors. The Audit Committee carries out a review of all non-audit services provided by the external auditors. During 2010 a formal policy for the external auditor's independence was introduced.

Fatwa and Shari'a Supervisory Board

During 2010 the shareholders have elected a new Fatwa and Shari'a Supervisory Board, including re-election of four members and election of one additional member.

The Fatwa and Shari'a Supervisory Board, whose members are not Board Directors, has a term of three years and all members are required to form a quorum, whether by principal or by proxy. It has the following mandate:

- It issues fatwas pertaining to the Group's activities at the request of the Group's executive management or Board of Directors. It also supervises and controls the validity of the Group's activities to ensure that they comply with principles and rulings of the Islamic Shari'a, and provides its recommendations.
- It has the right to submit written objections to the Board of Directors with respect to any of the Group's activities that it considers do not comply with any of the principles and rulings of the Islamic Shari'a. In addition, it reviews all forms of contracts and agreements relating to any of the Group's businesses to ensure their compliance with Islamic principles.
- It has the right to review, at any time, the Group's books, records and documents, and request any information it may deem necessary. In the event of its inability to discharge its duties, it will report this formally to the Board of Directors.

The members of the Fatwa and Shari'a Supervisory Board are:

Name	Position
Sheikh Mohamed Taqi Uthmani	Chairman
Dr. Abdul Sattar Abu Ghuddah	Vice Chairman
Dr. Jasem Ali Salem Al Shamsi	Member
Sheikh Nizam Ya'qoubi	Member
Dr. Muhamed Elqari	Member

Internal control

The Board of Directors is responsible for the Group's system of internal control and for ensuring that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls, and compliance with laws and regulations. In devising internal controls, the Group has regard to the nature and extent of the risk, the likelihood of its occurrence, and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses.

The Group's system of internal control includes:

- An organisation structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified, assessed and managed throughout the Group.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning.
- An annual budgeting and monthly financial reporting system for all Group business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The effectiveness of the Group's internal control system is reviewed regularly by the Board and the Audit Committee, which receive regular reports on significant risks facing the business and how they are being controlled. In addition, the Board receives regular risk management reports. Additional details of the Group's approach to risk management are given in note 43 to the Financial Statements. The Board received a number of reports from Internal Audit and the Audit Committee, and has received confirmation that management has taken, or is taking, the necessary action to remedy failings or weaknesses identified in these reports.

In addition, the Group's external auditors present to the Audit Committee reports that include details of any significant internal control matters that they have identified. The system of internal controls of the Group is also subject to regulatory oversight by the UAE Central Bank.

Relations with shareholders

The Group communicates with shareholders through the Annual Report and by providing information at the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year. During 2010 the Group provided extensive information about its Corporate Governance structure and other related information on its website.

Shareholders are given the opportunity to ask questions at the Annual General Meeting. Executive management also holds regular meetings with, and makes presentations to, institutional investors.

Consolidated Financial Statements

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Independent Auditor's Report to the Shareholders of Abu Dhabi Islamic Bank PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Islamic Bank PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, 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 International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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



Signed by
Richard Mitchell
Partner
Ernst & Young
Registration No. 446

14 February 2011
Abu Dhabi

ADIB Fatwa & Shari'a Supervisory Board's Report

To The Shareholders

For the financial year ending December the 31st, 2010

In the name of Allah, the most Beneficent, the most Merciful

All Praises are due to Allah, Lord of all the worlds and may peace and blessings be upon our leader Mohammed, his family and his Companions.

To the shareholders of Abu Dhabi Islamic Bank:

May the peace, mercy and blessings of Allah be upon you

With reference to article 69, from the Articles of Association of the Bank, we are required to report the following:

We have reviewed the utilized principles and contracts, relating to the transactions and applications that were implemented or discarded by the Bank during this period, in which we have carried out the necessary supervision in order to express an opinion as to whether the Bank has undertaken its activities in accordance with the principles and rulings of the Islamic Shari'a and the specific, Fatwas, resolutions and guidelines previously issued by us.

It is the responsibility of the Bank's executive management and Board of Directors to ensure that the Bank operates in accordance with the principles and rulings of the Islamic Shari'a. Our responsibility is limited to expressing an independent opinion based on our review of the Bank's operations and to prepare a concise report for you.

Our review which included examination of the documentation and procedures adopted by the Bank, was founded on examining each type of transactions in general, in addition to reviewing the audited financial statements and related notes.

We have designated and executed our review, through the Executive Committee of the Fatwa and Shari'a Supervisory Board and its delegated member (the Executive Member) by obtaining all the information and explanations we deemed necessary to provide us with sufficient evidence to give a reasonable assurance that the Bank had not violated any of the principles and rulings of the Islamic Shari'a. Furthermore, all periodic Shari'a auditing reports raised from the Shari'a division, which include different types of the Bank's executed transactions, have been reviewed and all the notes, mentioned in such reports, have been reviewed in the light of the explanation of the concerned departments and the appropriate decisions and resolutions have been taken with regards to them.

In our opinion:

- The contracts, operations and transactions executed by the Bank (and its subsidiary companies) during the financial year ending 31st December 2010 which we reviewed, were predominantly carried out in accordance with the principles and rulings of the Islamic Shari'a; those that were found to be shortcoming were directed to the management for redressing and their consequences were rectified in accordance with the requirements of the Islamic Shari'a.
- The distribution of profits and the bearing of losses on the investment accounts (including the allocation of the costs and expenses between the investment accounts and the shareholders) comply with the basis that we approved to be employed in accordance with principles and rulings of the Islamic Shari'a.
- Any returns that occurred through sources or methods that were not permissible with the principles and rulings of the Shari'a have been assigned to the charity account to be spent for charitable purposes as per our direction.
- In such that the management of the Bank is not authorized to pay Zakat directly, the responsibility of paying Zakat is that of the shareholders; an obligation on them as per the third pillar of Islam.

We ask Allah, the Most High and Capable, that He guides the Bank and those responsible for it with that which is right and that which is good. Finally, all praise is due to Allah, Lord of all the worlds.

Fatwa and Shari'a Supervisory Board of Abu Dhabi Islamic Bank

Sheikh Mohamed Taqi Uthmani	- Chairman
Dr. Abdul Sattar Abu Ghuddah	- Vice Chairman of the Board, Chairman of its Executive Committee and its Executive Member
Dr. Jasem Ali Salem Al Shamsi	- Member of the Board and its Executive Committee
Sheikh Nizam Ya'qoubi	- Member of the Board and its Executive Committee
Dr. Muhammad El-Gari	- Member of the Board

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 AED '000	2009 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		187,719	344,484
Income from murabaha, mudaraba, ijara and other Islamic financing	5	3,453,005	2,742,044
Investment income	6	75,699	39,498
Share of results of associates	21	14,798	(3,219)
Fees and commission income, net	7	343,325	198,574
Foreign exchange income		29,071	38,950
Income from investment properties	8	5,265	38,900
Income from development properties	9	(4,300)	99,845
Other income		14,441	(851)
		4,119,023	3,498,225
OPERATING EXPENSES			
Employees' costs	10	(792,815)	(634,029)
General and administrative expenses	11	(431,210)	(306,104)
Depreciation	22 & 25	(77,215)	(53,279)
Provision for impairment, net	12	(749,212)	(1,448,819)
		(2,050,452)	(2,442,231)
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS			
		2,068,571	1,055,994
Distribution to depositors and sukuk holders	13	(1,045,006)	(977,968)
PROFIT FOR THE YEAR			
		1,023,565	78,026
Attributable to:			
Equity holders of the Bank		1,023,345	77,778
Non-controlling interest	36	220	248
		1,023,565	78,026
Basic and diluted earnings per share attributable to ordinary shares (AED)	14	0.382	0.008

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year Ended 31 December 2010

	Notes	2010 AED '000	2009 AED '000
PROFIT FOR THE YEAR		1,023,565	78,026
Other comprehensive income (loss)			
Net realised gain on sale of available-for-sale investments	34	-	(9,324)
Net gain (loss) on valuation of available-for-sale investments		24,899	(66,867)
Impairment on available-for-sale investments	12	50,621	-
Directors' remuneration paid		(3,000)	(3,000)
Exchange differences arising on translation of foreign operations	34	(6,375)	1,724
Fair value loss on cash flow hedge	34	(2,566)	(6,076)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		63,579	(83,543)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		1,087,144	(5,517)
Attributable to:			
Equity holders of the Bank		1,086,924	(5,768)
Non-controlling interest		220	251
		1,087,144	(5,517)

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 AED '000	2009 AED '000
ASSETS			
Cash and balances with central banks	15	5,400,335	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	16	2,906,382	2,467,919
Murabaha and mudaraba with financial institutions	17	12,823,542	12,189,945
Murabaha and other Islamic financing	18	22,682,521	20,910,890
Ijara financing	19	25,270,071	19,563,010
Investments	20	1,639,414	1,010,024
Investment in associates	21	837,195	738,132
Investment properties	22	191,654	206,761
Development properties	23	1,050,445	931,070
Other assets	24	1,870,072	2,356,480
Property and equipment	25	585,887	378,825
TOTAL ASSETS		75,257,518	64,084,004
LIABILITIES			
Due to financial institutions	26	891,390	1,278,518
Depositors' accounts	27	56,517,045	48,219,662
Other liabilities	28	2,091,500	2,295,880
Tier 2 wakala capital	29	2,207,408	2,207,408
Sukuk financing instruments	30	5,439,523	2,938,000
Total liabilities		67,146,866	56,939,468
EQUITY			
Share capital	31	2,364,706	1,970,588
Legal reserve	32	1,754,899	1,754,475
General reserve	32	443,182	321,297
Retained earnings		984,069	724,632
Proposed dividends	33	511,783	394,118
Proposed dividends to charity		6,816	1,028
Other reserves	34	42,122	(24,457)
Equity attributable to the equity holders of the Bank		6,107,577	5,141,681
Tier 1 sukuk	35	2,000,000	2,000,000
Non-controlling interest	36	3,075	2,855
Total equity		8,110,652	7,144,536
TOTAL LIABILITIES AND EQUITY		75,257,518	64,084,004
CONTINGENT LIABILITIES AND COMMITMENTS	37	12,156,042	14,449,339



H.E. Jawaan Awaidha Al Khaili
Chairman



Tirad M. Mahmoud
Chief Executive Officer

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to the equity holders of the Bank										
	Note	Share capital AED '000	Legal reserve AED '000	General reserve AED '000	Retained earnings AED '000	Proposed dividends AED '000	Proposed dividends to charity AED '000	Other reserves AED '000	Total AED '000	Tier 1 sukuk AED '000	Non-controlling interest AED '000	Total equity AED '000
Balance at 1 January 2009		1,970,588	1,753,990	309,704	1,117,078	425,631	1,028	56,089	5,634,108	-	2,604	5,636,712
Total comprehensive income (loss)		-	-	-	74,778	-	-	(80,546)	(5,768)	-	251	(5,517)
Tier 1 sukuk issued to Government of Abu Dhabi	35	-	-	-	-	-	-	-	-	2,000,000	-	2,000,000
Profit paid on Tier 1 sukuk	35	-	-	-	(60,000)	-	-	-	(60,000)	-	-	(60,000)
Dividends paid	33	-	-	-	-	(425,631)	-	-	(425,631)	-	-	(425,631)
Dividends paid to charity		-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	32	-	485	11,593	(12,078)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(1,028)	-	1,028	-	-	-	-	-
Proposed bonus share dividend to shareholders	33	-	-	-	(394,118)	394,118	-	-	-	-	-	-
Balance at 1 January 2010		1,970,588	1,754,475	321,297	724,632	394,118	1,028	(24,457)	5,141,681	2,000,000	2,855	7,144,536
Total comprehensive income		-	-	-	1,020,345	-	-	66,579	1,086,924	-	220	1,087,144
Profit paid on Tier 1 sukuk	35	-	-	-	(120,000)	-	-	-	(120,000)	-	-	(120,000)
Dividends paid	33	394,118	-	-	-	(394,118)	-	-	-	-	-	-
Dividends paid to charity		-	-	-	-	-	(1,028)	-	(1,028)	-	-	(1,028)
Transfer to reserves	32	-	424	121,885	(122,309)	-	-	-	-	-	-	-
Proposed cash dividend to charity		-	-	-	(6,816)	-	6,816	-	-	-	-	-
Proposed cash dividend to shareholders	33	-	-	-	(511,783)	511,783	-	-	-	-	-	-
Balance at 31 December 2010		2,364,706	1,754,899	443,182	984,069	511,783	6,816	42,122	6,107,577	2,000,000	3,075	8,110,652

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 AED '000	2009 AED '000
OPERATING ACTIVITIES			
Profit for the year		1,023,565	78,026
Adjustments for:			
Depreciation on investment properties	22	4,022	4,644
Depreciation on property and equipment	25	73,193	48,635
Share of results of associates	21	(14,798)	3,219
Dividend income	6	(949)	(7,366)
Realised gain on sale of available-for-sale investments	6	(25)	(11,288)
Unrealised gain on held for trading investments	6	(3,028)	-
Realised (gain) loss on sale of held for trading investments	6	(2,205)	5,378
(Gain) loss on disposal of property and equipment		(29)	48
Provision for impairment, net	12	749,212	1,448,819
Gain on sale of investment properties	8	-	(40,738)
Gain on sale of development properties	9	(33,603)	(143,474)
Operating profit before changes in operating assets and liabilities		1,795,355	1,385,903
Purchase of certificate of deposits	15	(900,089)	-
Increase in balances and wakala deposits with Islamic banks and other financial institutions		(53,912)	(200,028)
Decrease (increase) in murabaha and mudaraba with financial institutions		2,702,632	(3,671,022)
Increase in murabaha and other Islamic financing		(2,330,190)	(3,533,873)
Increase in ijara financing		(5,705,764)	(3,923,875)
Purchase of held for trading investments		(2,125,426)	-
Proceeds from sale of held for trading investments		1,794,386	-
Decrease (increase) in other assets		307,609	(340,089)
Decrease in due to financial institutions		(15,518)	(369,642)
Increase in depositors' accounts		8,297,383	12,940,824
(Decrease) increase in other liabilities		(204,404)	693,454
Cash from operations		3,562,062	2,981,652
Directors' remuneration paid		(3,000)	(3,000)
Net cash from operating activities		3,559,062	2,978,652
INVESTING ACTIVITIES			
Dividend received		949	7,366
Purchase of available-for-sale investments		(329,448)	(299,950)
Proceeds from sale of available-for-sale investments		61,255	371,050
Investment in associates		(90,640)	(82,821)
Proceeds from liquidation of an associate		-	140,280
Additions to investment properties		-	(3,644)
Proceeds from sale of investment properties		-	53,192
Additions to development properties	23	(75,800)	(433,144)
Proceeds from sale of development properties	9	77,485	349,368
Purchase of property and equipment	25	(280,255)	(106,065)
Proceeds from disposal of property and equipment		29	106
Net cash used in investing activities		(636,425)	(4,262)
FINANCING ACTIVITIES			
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	35	(120,000)	(60,000)
Proceeds from issuance of Tier 1 sukuk to Government of Abu Dhabi		-	2,000,000
Proceeds from the issuance of sukuk (second issue)	30	2,754,375	-
Repurchase of sukuk (second issue)	30	(252,852)	-
Dividends paid		(2,542)	(402,611)
Dividends paid to charity		(1,028)	(1,028)
Net cash from financing activities		2,377,953	1,536,361
INCREASE IN CASH AND CASH EQUIVALENTS			
		5,300,590	4,510,751
Cash and cash equivalents at 1 January		10,655,313	6,144,562
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	40	15,955,903	10,655,313

Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, Islamic sukuk and customer deposits are as follows:

Profit received		3,454,570	2,706,034
Profit paid to depositors and sukuk holders	13	797,399	760,527

The attached notes 1 to 45 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2010

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC ("the Bank") was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997.

The Bank and its subsidiaries ("the Group") carry out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna'a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 66 branches in the UAE. The consolidated financial statements combine the activities of the Bank's head office, its branches, subsidiaries and its associates.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The consolidated financial statements of the Group were authorised for issued by the Board of Directors on 14 February 2011.

2 DEFINITIONS

The following terms are used in the consolidated financial statements with the meanings specified:

Murabaha

A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price consists of the purchasing cost plus a mark-up profit.

Istisna'a

A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

Ijara

A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

Qard Hasan

A non-profit bearing loan enables the borrower to use the borrowed amounts for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

Musharaka

A contract between the Group and a customer to enter into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

Mudaraba

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

Wakalah

A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

Sukuk

Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

3 BASIS OF PREPARATION

3.1.a Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), general principles of the Shari'a as determined by the Group's Fatwa and Shari'a Supervisory Board and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended).

3.1.b Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except for held for trading investments, available-for-sale investments, Shari'a compliant alternatives of derivative financial instruments which have been measured at fair value and land which has been carried at re-valued amount.

The consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

3.1.c Basis of consolidation

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

	Activity	Country of incorporation	Percentage of holding	
			2010	2009
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	95%	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	100%	100%
ADIB Invest 1	Equity brokerage services	BVI	100%	100%
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
Kawader Services Company LLC	Manpower supply	United Arab Emirates	100%	100%

A subsidiary is an entity over which the Bank exercises control, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from its activities. These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

*The Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

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

Non-controlling interests represent the portion of the profit or loss and net assets not held by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the Bank shareholders' equity.

3.2 Changes in accounting policies

During the year, the Group has adopted the following new and amended IFRS interpretations as of or after 1 January 2010.

- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008 and April 2009)

The principal effects of these changes are as follows:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

Notes to the Consolidated Financial Statements

31 December 2010

3 BASIS OF PREPARATION *continued*

3.2 Changes in accounting policies *continued*

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

3.3 Standards issued but not yet effective

The following new standards / amendments to standards which were issued up to 31 December 2010 and are not yet effective for the year ended 31 December 2010 have not been applied while preparing these consolidated financial statements:

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets.

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period when they become effective. Management is in the process of assessing the potential impact of the adoption of these standards.

3.4 Significant judgements and estimates

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Impairment losses on financing assets

The Group reviews its financing assets on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income statement in relation to any non-performing assets. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of individually impaired provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on financing assets

In addition to specific provisions against individually impaired financing assets, the Bank also makes collective impairment provisions against portfolio of financing assets with common features which have not been identified as individually impaired. This collective provision is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Impairment of equity investments

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

Classification of held-to-maturity investments

The Group follows the guidance of IAS 39: Financial Instruments: Recognition and Measurement on classifying financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Investment and development properties

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates

Management regularly reviews its investment in associates for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment in associate is recognised as an expense in the consolidated income statement.

Impairment review of investment properties and advances paid against purchase of properties

Investment properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Murabaha

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Notes to the Consolidated Financial Statements

31 December 2010

4 SIGNIFICANT ACCOUNTING POLICIES *continued*

Revenue recognition *continued*

Ijara

Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka

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

Mudaraba

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

Sukuk

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Sale of properties

Revenue on sale of properties is recognised as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of units or apartments is deferred until completion of construction works and delivery to the buyer takes place.

Fee and commission income

Fee and commission income is recognised when the related services are performed.

Operating lease income

Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Gain on sale of investments

Gain or loss on disposal of trading investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available-for-sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of properties

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the books.

Financial instruments

(i) Classification

The Group classifies its financial instruments in the following categories: Financial assets and financial liabilities at fair value through profit or loss, Murabaha, Ijara, Mudaraba, and certain other Islamic financing, available-for-sale investments and held to maturity investments. Management determines the classification of financial instruments at the time of initial recognition.

Financial assets or financial liabilities at fair value through profit or loss

This category has two sub-categories: financial assets or financial liabilities held for trading and those designated at fair value through profit or loss at inception. A financial asset or financial liability is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term. The Group has designated financial assets and liabilities at fair value through profit or loss when either the assets and liabilities are managed, evaluated and reported internally on a fair value basis; or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets or financial liabilities at amortised cost

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost less provisions for impairment and deferred or expected profits. Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing. Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value. Other Islamic financing are stated at amortised cost less any provisions for impairment and deferred income.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity and the Group's management has the positive intention and the ability to hold to maturity.

Available-for-sale

Financial assets that are not classified under any other category of financial assets are classified as available-for-sale.

(ii) Recognition / De-recognition

The Group initially recognises financial assets held for trading, financial assets at fair value through profit or loss, financial assets held to maturity and financial assets available-for-sale on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are originated. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instruments.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, assets held for trading and assets available-for-sale that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(iii) Measurement

Financial assets and liabilities are measured initially at fair value plus, in case of a financial asset or financial liability or at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from a change in the fair value of assets at fair value through profit or loss account are recorded directly in the consolidated income statement.

Financial assets which are classified as available-for-sale are measured at fair value. Unrealised gains and losses on measurement to fair value of assets are recognised in the statement of other comprehensive income reported as a separate component of equity until the assets is sold or otherwise disposed of, or the assets is determined to be impaired, at which the cumulative gains of losses previously recognised through the statement of other comprehensive income are included in the consolidated income statement. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment allowance, if any.

All financial assets or liabilities at amortised cost, customer financing and held-to-maturity investments are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

(iv) Fair value measurement principles

For investments quoted in active market, fair value is determined by reference to quoted market prices. The fair values of investments in funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent transactions
- option pricing models

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

Notes to the Consolidated Financial Statements

31 December 2010

4 SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial instruments *continued*

(v) Offsetting of financial instruments

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

(vi) Impairment of financial assets

Customer financing

The recoverable amount of customer financing is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective profit rate. Short-term balances are not discounted. Financing is presented net of impairment allowances. Specific allowances are made against the carrying amount of financing that are identified as being impaired, based on regular reviews of outstanding balances to reduce these financing to their recoverable amounts. Portfolio allowances are maintained to reduce the carrying amount of portfolios of similar financing to their estimated recoverable amounts at the statement of financial position date. Changes in the allowance account are recognized in the consolidated income statement. When a financing is known to be irrecoverable, and all the necessary legal procedures have been completed, the final loss is determined and the financing is written off.

If in a subsequent period the amount of an impairment loss decreases, and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated income statement.

Where possible, the Bank seeks to restructure financing exposures rather than take possession of collateral and this may involve extending payment arrangements and agreement of new terms and conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur on schedule. The facilities continue to be subject to individual or collective impairment assessment, calculated using the facilities original effective profit rate.

Held to maturity investments

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

Available-for-sale investments

Impairment losses on available-for-sale investments are recognised by transferring the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in consolidated income statement out of equity to the consolidated income statement. Impairment losses recognised on equity instruments are not reversed through the consolidated income statement.

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Investment in associates

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

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each statement of reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is 20 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties

Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at the revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

Buildings	20 years
Furniture and leasehold improvements	7 years
Computer and office equipment	4 years
Motor vehicles	4 years

The carrying values of properties and equipments are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

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

When an asset is revalued, any increase in the carrying amount arising on revaluation is credited directly to equity under revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Deposits

Customer deposits and due to banks and other financial institutions are carried at cost.

Notes to the Consolidated Financial Statements

31 December 2010

4 SIGNIFICANT ACCOUNTING POLICIES *continued*

Employees' pension and end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

Shari'a compliant alternatives of derivative financial instruments

The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of 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.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges

The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a nonfinancial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Zakat

Zakat is computed in accordance with the Articles and Memorandum of Association of the Bank and is approved by the Fatwa and Shari'a Supervisory Board. As stated in the Articles and Memorandum of Association of the Bank, it is the responsibility of the shareholders to pay Zakat due on their investment.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 and the Group's Fatwa and Shari'a Supervisory Board Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 39).

Profit distribution

Profits or losses of Mudaraba based accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Profit Equalization Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting

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

Prohibited income

According to the Fatwa and Shari'a Supervisory Board "FSSB", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the FSSB (as purification amount).

Fiduciary assets

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

Foreign currencies

The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the statement of financial position date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING

	2010 AED '000	2009 AED '000
Vehicle murabaha	615,974	538,213
Goods murabaha	255,916	291,459
Share murabaha	494,955	260,797
Commodities murabaha – Al Khair	233,357	178,515
Other murabaha	67,248	99,167
Total murabaha	1,667,450	1,368,151
Mudaraba	189,871	167,742
Ijara	1,408,323	1,078,333
Islamic covered cards	158,448	98,686
Istisna'a	28,913	29,132
	3,453,005	2,742,044

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6 INVESTMENT INCOME

	2010 AED '000	2009 AED '000
Income from Islamic sukuk	36,272	22,703
Income from other investment assets	33,220	3,519
Dividend income	949	7,366
Realised gain on sale of available-of-sale investments	25	11,288
Realised gain (loss) on sale of held for trading investments	2,205	(5,378)
Unrealised gain on held for trading investments	3,028	-
	75,699	39,498

7 FEES AND COMMISSION INCOME, NET

	2010 AED '000	2009 AED '000
Fees and commission income:		
Fees and commission income on cards	142,160	84,470
Trade related fees and commission	61,646	50,377
Accounts services fees	66,296	35,777
Projects and property management fees	40,129	29,428
Risk participation and arrangement fees	30,277	7,237
Brokerage fees and commission	17,370	22,015
Other fees and commissions	49,695	46,577
Total fees and commission income	407,573	275,881
Fees and commission expenses:		
Card related expenses	(47,639)	(35,380)
Other fees and commission expenses	(16,609)	(41,927)
Total fees and commission expenses	(64,248)	(77,307)
Fees and commission income, net	343,325	198,574

8 INCOME FROM INVESTMENT PROPERTIES

	2010 AED '000	2009 AED '000
Proceeds from sale of investment properties	-	53,192
Less: carrying amount as of the date of sale	-	(12,454)
Gain on sale of investment properties	-	40,738
Rental income	5,265	5,432
Other direct expenses	-	(7,270)
	5,265	38,900

9 INCOME FROM DEVELOPMENT PROPERTIES

	2010 AED '000	2009 AED '000
Revenue from sale of development properties	77,485	349,368
Less: cost of properties sold	(43,882)	(205,894)
Gain on sale of development properties	33,603	143,474
Provision for rent guarantee	(37,903)	(21,121)
Other direct expenses	-	(22,508)
	(4,300)	99,845

Provision for rent guarantee represents provision against the minimum rental income guaranteed by a subsidiary of the Bank to the buyers of properties at the time of sale. Rent guarantee is computed as the difference between guaranteed and expected rent as of the reporting date.

10 EMPLOYEES' COSTS

	2010 AED '000	2009 AED '000
Salaries and wages	720,569	581,518
End of service benefits	45,351	32,812
Other staff expenses	26,895	19,699
	792,815	634,029

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2010 AED '000	2009 AED '000
Legal and professional expenses	96,596	59,283
Premises expenses	116,181	92,048
Marketing and advertising expenses	95,518	73,443
Communication expenses	41,750	21,313
Technology related expenses	21,143	14,588
Other operating expenses	60,022	45,429
	431,210	306,104

12 PROVISION FOR IMPAIRMENT, NET

	Notes	2010 AED '000	2009 AED '000
Murabaha and mudaraba with financial institutions	17	38,902	186,298
Murabaha and other Islamic financing	18	558,559	961,301
Ijara financing	19	(1,297)	201,163
Investments, net	20	50,621	57,629
Investment properties	22	18,082	-
Other assets	24	84,345	42,428
		749,212	1,448,819

The above provision for impairment includes AED 119,458 thousand (2009: AED 40,864 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank and reversal of AED 100 thousand (2009: Charge of AED 3,007 thousand) pertaining to Abu Dhabi Islamic Securities Company LLC, an equity brokerage subsidiary of the Bank.

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13 DISTRIBUTION TO DEPOSITORS AND SUKUK HOLDERS

	2010 AED '000	2009 AED '000
Depositors and sukuk holders share of profit for the year	1,045,006	977,968
Less: pertaining to depositors' profit equalisation reserve (note 27)	(15,194)	(49,594)
	1,029,812	928,374
Less: paid during the year	(797,399)	(760,527)
Depositors and sukuk holders share of profit payable (note 28)	232,413	167,847

Share of profits distributable to customers and financial institutions are as follows:

	2010 AED '000	2009 AED '000
Saving accounts	83,919	81,669
Investment accounts by customers	547,387	423,095
Investment accounts by financial institutions	367,431	427,479
Sukuk holders	46,269	45,725
	1,045,006	977,968

14 BASIC AND DILUTED EARNINGS PER SHARE

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

Diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of any financial instruments with dilutive effects.

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

	Notes	2010	2009
Profit for the year attributable to equity holders (AED '000)		1,023,345	77,778
Less: profit attributable to Tier 1 sukuk holder (AED '000)	35	(120,000)	(60,000)
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		903,345	17,778
Weighted average number of ordinary shares in issue at 1 January (000's)		1,970,588	1,970,588
Effect of bonus shares issued (000's)	33	394,118	394,118
Weighted average number of ordinary shares in issue at 31 December (000's)		2,364,706	2,364,706
Basic and diluted earnings per share (AED)		0.382	0.008

In 2010 and 2009, the Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised.

15 CASH AND BALANCES WITH CENTRAL BANKS

	2010 AED '000	2009 AED '000
Cash on hand	738,396	400,315
Balances with central banks:		
- Current accounts	141,202	41,243
- Statutory reserve	3,620,648	2,889,390
- Islamic certificate of deposits	900,089	-
	5,400,335	3,330,948

The Bank is required to maintain statutory reserve with the Central Bank of the UAE in AED and US Dollar on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE is the buyer and the Bank is the seller.

The distribution of the cash and balances with central banks by geographic region is as follows:

	2010 AED '000	2009 AED '000
UAE	5,374,627	3,305,240
Middle East	25,708	25,708
	5,400,335	3,330,948

16 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 AED '000	2009 AED '000
Current accounts	108,249	78,410
Wakala deposits	2,798,133	2,389,509
	2,906,382	2,467,919

In accordance with Shari'a principles deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

The distribution of the balances and wakala deposits with Islamic banks and other financial institutions by geographic region is as follows:

	2010 AED '000	2009 AED '000
UAE	2,264,096	2,281,180
Middle East	4,509	4,483
Europe	34,305	62,728
Others	603,472	119,528
	2,906,382	2,467,919

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17 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	2010 AED '000	2009 AED '000
Murabaha	12,748,177	11,957,576
Mudaraba	265,675	418,667
	13,013,852	12,376,243
Less: provision for impairment	(190,310)	(186,298)
	12,823,542	12,189,945

The movement in the provision for impairment during the year was as follows:

	2010 AED '000	2009 AED '000
At 1 January	186,298	-
Charge for the year (note 12)	38,902	186,298
Written off during the year	(34,890)	-
At 31 December	190,310	186,298

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region is as follows:

	2010 AED '000	2009 AED '000
UAE	12,193,125	11,565,133
Middle East	230,270	324,292
Europe	367,421	228,939
Others	223,036	257,879
	13,013,852	12,376,243

18 MURABAHA AND OTHER ISLAMIC FINANCING

	2010 AED '000	2009 AED '000
Vehicle murabaha	7,904,499	8,022,334
Goods murabaha	4,168,262	4,893,373
Share murabaha	7,644,552	4,381,695
Commodities murabaha – Al Khair	3,654,793	2,781,555
Other murabaha	2,295,820	2,178,763
Total murabaha	25,667,926	22,257,720
Mudaraba	2,763,970	2,692,246
Islamic covered cards	4,004,584	3,226,955
Istisna'a	301,219	277,656
Other financing receivables	116,809	96,521
Total murabaha and other Islamic financing	32,854,508	28,551,098
Less: deferred income	(8,274,397)	(6,270,053)
	24,580,111	22,281,045
Less: provision for impairment	(1,897,590)	(1,370,155)
	22,682,521	20,910,890

The movement in the provision for impairment during the year was as follows:

	2010			2009		
	Individual impairment AED '000	Collective impairment AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED '000
At 1 January	1,088,461	281,694	1,370,155	337,351	72,271	409,622
Charge for the year (note 12)	551,230	7,329	558,559	751,878	209,423	961,301
Written off during the year	(31,124)	-	(31,124)	(768)	-	(768)
At 31 December	1,608,567	289,023	1,897,590	1,088,461	281,694	1,370,155

The distribution of the gross murabaha and other Islamic financing by segment and industry sector and geographic region was as follows:

	2010 AED '000	2009 AED '000
Segment and industry sector:		
<i>Wholesale banking</i>		
Government	242,115	357,719
Public sector	89,294	41,889
Corporates	5,743,157	5,482,045
Financial institutions	614,920	544,832
	6,689,486	6,426,485
<i>Retail banking</i>		
Individuals	15,848,819	13,719,298
Small and medium enterprises	468,492	511,199
	16,317,311	14,230,497
<i>Private banking</i>		
Individuals	1,573,314	1,624,063
	24,580,111	22,281,045
Geographic region:		
UAE	23,387,881	20,972,629
Middle East	783,656	819,356
Europe	377,757	421,544
Others	30,817	67,516
	24,580,111	22,281,045

19 IJARA FINANCING

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation include a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

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19 IJARA FINANCING *continued*

	2010 AED '000	2009 AED '000
The aggregate future lease receivables are as follows:		
Due within one year	6,371,984	4,335,846
Due in the second to fifth year	16,739,421	13,118,485
Due after five years	8,789,073	7,770,981
Total ijara financing	31,900,478	25,225,312
Less: deferred income	(6,251,307)	(5,281,659)
Net present value of minimum lease payments receivable	25,649,171	19,943,653
Less: provision for impairment	(379,100)	(380,643)
	25,270,071	19,563,010

The movement in the provision for impairment during the year was as follows:

	2010			2009		
	Individual impairment AED '000	Collective impairment AED '000	Total AED '000	Individual impairment AED '000	Collective impairment AED '000	Total AED '000
At 1 January	144,737	235,906	380,643	117,278	62,376	179,654
Charge for the year (note 12)	(51,712)	50,415	(1,297)	27,633	173,530	201,163
Written off during the year	(246)	-	(246)	(174)	-	(174)
At 31 December	92,779	286,321	379,100	144,737	235,906	380,643

The distribution of the gross ijara financing by segment and industry sector and geographic region was as follows:

	2010 AED '000	2009 AED '000
<i>Segment and industry sector:</i>		
<i>Wholesale banking</i>		
Government	119,191	45,378
Public sector	2,173,962	1,296,053
Corporates	9,589,736	6,851,614
Financial institutions	827,682	1,015,168
	12,710,571	9,208,213
<i>Retail banking</i>		
Individuals	6,710,866	4,806,702
Small and medium enterprises	240,141	295,801
	6,951,007	5,102,503
<i>Private banking</i>		
Individuals	5,856,941	5,540,156
Non-profit organisations	130,652	92,781
	5,987,593	5,632,937
	25,649,171	19,943,653
<i>Geographic region:</i>		
UAE	24,774,860	18,957,534
Middle East	20,890	26,112
Others	853,421	960,007
	25,649,171	19,943,653

20 INVESTMENTS

	2010 AED '000	2009 AED '000
<i>Held for trading</i>		
Equities	6,920	-
Sukuk	329,353	-
	336,273	-
<i>Available-for-sale</i>		
Quoted investments		
Equities	58,817	925
Sukuk	604,280	298,555
	663,097	299,480
Unquoted investments		
Funds	223,322	210,445
Private equities	281,272	311,119
Musharaka	-	53,900
	504,594	575,464
Total available-for-sale investments	1,167,691	874,944
<i>Held to maturity</i>		
Sukuk	135,450	135,080
Total investments	1,639,414	1,010,024

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

All unquoted available for sale equities are recorded at their fair values except for investments amounting to AED 87,935 thousand (2009: AED 181,889 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Group intends to hold them for the long term.

The movement in the provision for impairment during the year was as follows:

	2010 AED '000	2009 AED '000
At 1 January	57,770	129,479
Charge for the year (note 12)	50,621	57,629
Reversal of provision	-	(129,338)
At 31 December	108,391	57,770

The distribution of the gross investments by geographic region is as follows:

	2010 AED '000	2009 AED '000
UAE	1,147,659	816,101
Middle East	465,031	224,417
Europe	104	-
Others	135,011	27,276
	1,747,805	1,067,794

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21 INVESTMENT IN ASSOCIATES

	2010 AED '000	2009 AED '000
Cost of investment in associates	861,273	770,633
Share of results	(4,860)	(19,658)
Foreign currency translation (note 34)	13,565	19,940
	869,978	770,915
Less: provision for impairment	(32,783)	(32,783)
	837,195	738,132

Details of the Bank's investment in associates at 31 December is as follows:

Name of associate	Place of incorporation	Proportion of ownership interest and voting power		Principal activity
		2010 %	2009 %	
Abu Dhabi National Takaful PJSC	UAE	40	40	Islamic insurance
BBI Leasing and Real Estate D.O.O	Bosnia	32	32	Islamic leasing and real estate
Bosna Bank International D.D	Bosnia	27	27	Islamic banking
National Bank for Development	Egypt	49	49	Banking (under conversion to Islamic bank)

Summarised financial information of investment in associates is set out below:

	2010 AED '000	2009 AED '000
<i>Share of associates' statement of financial position</i>		
Assets	3,634,996	3,030,807
Liabilities	(3,879,386)	(3,562,482)
Net assets	(244,390)	(531,675)
<i>Share of associates' revenue and profits (losses):</i>		
Revenue for the year	105,110	29,327
Profit (loss) for the year	14,798	(3,219)

As of 31 Dec 2010, the Bank's share of the contingent liabilities and commitments of associates amounted to AED 155,040 thousand (2009: AED 166,836 thousand).

The distribution of the gross investment in associates by geographic region was as follows:

	2010 AED '000	2009 AED '000
UAE	117,337	106,091
Europe	65,083	67,901
Others	687,558	596,923
	869,978	770,915

22 INVESTMENT PROPERTIES

The movement in investment properties balance during the year was as follows:

	Land AED '000	Other properties AED '000	Total AED '000
2010:			
Cost			
Balance at 1 January	30,452	185,046	215,498
Transfer from other assets (note 40)	-	6,997	6,997
Gross balance at 31 December	30,452	192,043	222,495
Less: provision for impairment (note 12)	(5,442)	(12,640)	(18,082)
Net balance at 31 December	25,010	179,403	204,413
Accumulated depreciation:			
Balance at 1 January	-	8,737	8,737
Charge for the year	-	4,022	4,022
Balance at 31 December	-	12,759	12,759
Net book value at 31 December	25,010	166,644	191,654
2009:			
Cost:			
Balance at 1 January	30,245	194,718	224,963
Additions	207	3,437	3,644
Disposals	-	(13,109)	(13,109)
Balance at 31 December	30,452	185,046	215,498
Accumulated depreciation:			
Balance at 1 January	-	4,748	4,748
Charge for the year	-	4,644	4,644
Relating to disposals	-	(655)	(655)
Balance at 31 December	-	8,737	8,737
Net book value at 31 December	30,452	176,309	206,761

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 5,265 thousand (2009: AED 5,432 thousand).

The fair values of investment properties at 31 December 2010 amounted to AED 203,693 thousand (2009: AED 184,845 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations, and has appropriate qualification and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on the transactions observable in the market or based on valuation models.

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22 INVESTMENT PROPERTIES *continued*

The distribution of the investment properties by geographic region was as follows:

	Land AED '000	Other properties AED '000	Total AED '000
2010:			
UAE	21,883	179,284	201,167
Middle East	8,569	-	8,569
	30,452	179,284	209,736
2009:			
UAE	21,883	176,309	198,192
Middle East	8,569	-	8,569
	30,452	176,309	206,761

23 DEVELOPMENT PROPERTIES

The movement in development properties during the year was as follows:

	2010 AED '000	2009 AED '000
Balance at 1 January	931,070	688,623
Additions	75,800	433,144
Transfers from other assets (note 40)	87,457	15,197
Disposals	(43,882)	(205,894)
Balance at 31 December	1,050,445	931,070

Development properties include land with a carrying value of AED 815,750 thousand (2009: AED 821,382 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	2010 AED '000	2009 AED '000
Advances against purchase of properties	1,247,680	1,288,969
Trade receivables	214,345	654,004
Cheques for collection	3,382	4,410
Prepaid expenses	180,571	90,531
Income receivable	16,616	8,418
Advance to contractors	8,443	19,607
Advance for investments	290,017	290,017
Others	129,955	153,463
	2,091,009	2,509,419
Less: provision for impairment	(220,937)	(152,939)
	1,870,072	2,356,480

The movement in the provision for impairment during the year was as follows:

	Advances against purchase of properties AED '000	Trade receivables AED '000	Advance for investments AED '000	Others AED '000	Total AED '000
At 1 January 2009	-	4,370	106,392	-	110,762
Charge for the year (note 12)	-	42,428	-	-	42,428
Written off	-	(251)	-	-	(251)
At 1 January 2010	-	46,547	106,392	-	152,939
Charge for the year (note 12)	74,031	(100)	-	10,414	84,345
Written off	-	(16,347)	-	-	(16,347)
At 31 December 2010	74,031	30,100	106,392	10,414	220,937

25 PROPERTY AND EQUIPMENT

	Land (note 34) AED '000	Buildings AED '000	Furniture and fixtures AED '000	Computer and office equipment AED '000	Motor vehicles AED '000	Capital work-in progress AED '000	Total AED '000
2010							
Cost or valuation:							
At 1 January	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Additions	-	-	42,239	95,957	1,102	140,957	280,255
Transfers	-	-	13,476	17,706	-	(31,182)	-
Disposals	-	-	-	-	(424)	-	(424)
At 31 December	129,315	14,838	199,647	304,133	9,818	196,546	854,297
Depreciation:							
At 1 January	-	2,206	61,748	127,286	4,401	-	195,641
Charge for the year	-	745	22,049	48,603	1,796	-	73,193
Relating to disposals	-	-	-	-	(424)	-	(424)
At 31 December	-	2,951	83,797	175,889	5,773	-	268,410
Net book value							
At 31 December	129,315	11,887	115,850	128,244	4,045	196,546	585,887
2009							
Cost or valuation:							
At 1 January	129,315	14,838	83,437	149,742	5,235	86,216	468,783
Additions	-	-	12,632	29,456	4,198	59,779	106,065
Transfers	-	-	47,865	11,359	-	(59,224)	-
Disposals	-	-	(2)	(87)	(293)	-	(382)
At 31 December	129,315	14,838	143,932	190,470	9,140	86,771	574,466
Depreciation:							
At 1 January	-	1,462	44,930	97,865	2,977	-	147,234
Charge for the year	-	744	16,818	29,421	1,652	-	48,635
Relating to disposals	-	-	-	-	(228)	-	(228)
At 31 December	-	2,206	61,748	127,286	4,401	-	195,641
Net book value							
At 31 December	129,315	12,632	82,184	63,184	4,739	86,771	378,825

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26 DUE TO FINANCIAL INSTITUTIONS

	2010 AED '000	2009 AED '000
Current accounts	240,660	251,426
Investment deposits	650,730	792,296
Murabaha payables	-	234,796
	891,390	1,278,518

Murabaha payables represent amounts due to other financial institutions by a subsidiary of the Bank.

The distribution of due to financial institutions by geographic region was as follows:

	2010 AED '000	2009 AED '000
UAE	68,487	305,524
Middle East	507,458	168,659
Europe	169,147	241,332
Others	146,298	563,003
	891,390	1,278,518

27 DEPOSITORS' ACCOUNTS

	2010 AED '000	2009 AED '000
Current accounts	12,635,323	11,422,664
Saving accounts	8,911,158	6,653,208
Investment accounts	34,905,776	30,094,196
Profit equalisation reserve	64,788	49,594
	56,517,045	48,219,662

The movement in the profit equalisation reserve during the year was as follows:

	2010 AED '000	2009 AED '000
At 1 January	49,594	-
Share of profit for the year (note 13)	15,194	49,594
At 31 December	64,788	49,594

The distribution of the gross depositors' accounts by segment and industry sector, geographic region and currency was as follows:

	2010 AED '000	2009 AED '000
Segment and industry sector:		
<i>Wholesale banking</i>		
Government	8,736,816	9,801,118
Public sector	9,999,671	8,743,168
Corporates	7,414,994	4,785,803
Financial institutions	2,286,598	846,043
	28,438,079	24,176,132
<i>Retail banking</i>		
Individuals	17,588,022	14,544,206
Small and medium enterprises	2,891,105	2,534,324
	20,479,127	17,078,530
<i>Private banking</i>		
Individuals	4,510,701	4,798,513
Non-profit organisations	3,089,138	2,166,487
	7,599,839	6,965,000
	56,517,045	48,219,662

	2010 AED '000	2009 AED '000
Geographic region:		
UAE	56,077,875	47,937,258
Middle East	289,220	11,463
Europe	1,793	1,594
Others	148,157	269,347
	56,517,045	48,219,662
Currencies:		
UAE Dirham	46,347,084	38,304,027
US Dollar	9,901,370	9,651,048
Euro	233,890	172,969
Sterling Pound	32,780	90,304
Others	1,921	1,314
	56,517,045	48,219,662

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract.

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28 OTHER LIABILITIES

	2010 AED '000	2009 AED '000
Accounts payable	566,690	720,184
Payable for properties	109,679	91,008
Accrued profit for distribution to depositors and sukuk holders (note 13)	232,413	167,847
Bankers' cheques	62,108	128,329
Provision for staff benefits and other expenses	214,901	155,067
Retentions payable	345,815	378,366
Advances from customers	29,079	100,535
Accrued legal and professional charges	6,729	6,235
Accrued expenses	45,569	70,710
Unclaimed dividends	51,769	54,311
Deferred income	62,932	39,171
Charity account	6,000	6,761
Donation account	4,198	6,986
Negative fair value on Shari'a compliant alternatives of derivative financial instruments (note 38)	8,642	6,076
Others	344,976	364,294
	2,091,500	2,295,880

29 TIER 2 WAKALA CAPITAL

In December 2008, the UAE Federal government ("the Government") placed deposits with the Bank for a period of 3 - 5 years. Subsequent to the deposit placements, the Government offered, subject to certain terms and conditions and in accordance with the Central Bank's capital adequacy requirements, to convert the deposits, into capital qualifying as Tier 2 capital. Pursuant to the Extraordinary General Meeting held on 22 March 2009, the shareholders approved, subject to the terms of an instrument to be entered into with the Government, the conversion of these deposits into a Tier 2 capital. On 31 December 2009, a Shari'a compliant wakala agreement was signed by the Bank. In accordance with the terms of that agreement the deposits were converted into Tier 2 qualifying wakala capital.

The wakala capital is an unsecured subordinated obligation of the Bank which has been provided to the Bank for a term of 7 years. However, the Bank may, subject to certain conditions, return the wakala capital to the Government prior to the expiry of the 7 year term. The Tier 2 qualifying wakala capital bears an expected profit rate ranging, over the term that it has been provided, from 4% - 5.25%. The profit rate is payable quarterly in arrears. In limited circumstances and subject to certain conditions, the Government has the ability to convert all or part of the wakala capital into ordinary shares of the Bank at the prevailing market price.

30 SUKUK FINANCING INSTRUMENTS

	2010 AED '000	2009 AED '000
First issue	2,938,000	2,938,000
Second issue	2,501,523	-
	5,439,523	2,938,000

First issue - USD 800 million

In December 2006, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,938,000 thousand (USD 800 million) as the first issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in December 2011. The sukuk deserved profit distribution varies based on the market rate plus a margin.

Second issue - USD 750 million

In November 2010, the Bank through a Shari'a compliant sukuk arrangement, raised medium term sukuk amounting to AED 2,754,375 thousand (USD 750 million) as the second issue under a USD 5 billion programme. The sukuk are listed on the London Stock Exchange. The sukuk will mature in November 2015. The sukuk deserved profit is distributed in accordance with fixed profit rate. During the year, sukuk with a face value of AED 252,852 thousand (USD 68.9 million) were repurchased by the Bank.

Terms of arrangement

The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original ijara assets of the Bank, to a sukuk company, ADIB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the sukuk transaction. The assets are owned by the investors, however the assets are controlled by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at an exercise price which equals the value of the Issuer's co-ownership interest in the unpaid rental installments due and payable in respect of the Co-Owned Assets, which may equal the amount of AED 5,692,375 thousand (USD 1,550 million).

31 SHARE CAPITAL

	2010 AED '000	2009 AED '000
Authorised share capital:		
3,000,000 thousand (2009: 3,000,000 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	3,000,000	3,000,000
Issued and fully paid share capital:		
At 1 January		
1,970,588 thousand (2009: 1,970,588 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	1,970,588	1,970,588
Bonus shares issued (note 33)	394,118	-
At 31 December		
2,364,706 thousand (2009: 1,970,588 thousand) ordinary shares of AED 1 each (2009: AED 1 each)	2,364,706	1,970,588

32 RESERVES

32.1 Legal reserve

As required by the UAE Federal Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per the Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year.

32.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

33 PROPOSED DIVIDENDS

	2010 AED '000	2009 AED '000
Cash dividend: AED 0.2164 per share of AED 1 each (2009: nil)	511,783	-
Bonus share dividend: Nil (2009: AED 0.2 per share of AED 1 each)	-	394,118
	511,783	394,118

Cash dividend of 21.64% of the paid up capital relating to year ended 31 December 2010 amounting to AED 511,783 thousand (2009: nil) shall be paid after the approval by the shareholders in the Annual General Assembly.

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34 OTHER RESERVES

	Cumulative changes in fair values AED '000	Land revaluation reserve AED '000	Foreign currency translation reserve AED '000	Hedging reserve AED '000	Total AED '000
At 1 January 2009	(91,366)	129,239	18,216	-	56,089
Net realised gains on sale of available-for-sale investments	(9,324)	-	-	-	(9,324)
Net loss on valuation of available-for-sale investments	(66,870)	-	-	-	(66,870)
Exchange differences arising on translation of foreign operations	-	-	1,724	-	1,724
Fair value loss on cash flow hedge (note 38)	-	-	-	(6,076)	(6,076)
At 1 January 2010	(167,560)	129,239	19,940	(6,076)	(24,457)
Net gain on valuation of available-for-sale investments	24,899	-	-	-	24,899
Impairment on available-for-sale investments (note 12)	50,621	-	-	-	50,621
Exchange differences arising on translation of foreign operations	-	-	(6,375)	-	(6,375)
Fair value loss on cash flow hedge (note 38)	-	-	-	(2,566)	(2,566)
At 31 December 2010	(92,040)	129,239	13,565	(8,642)	42,122

35 TIER 1 SUKUK

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. The Sukuk is callable by the Bank subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears and, after the initial period, bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity. Sukuk holder will not have a right to claim the mudaraba profit if the Bank decided not to distribute dividends on its shares and the event is not considered an event of default.

36 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of a subsidiary.

37 CONTINGENT LIABILITIES AND COMMITMENTS

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

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

	2010 AED '000	2009 AED '000
Contingent liabilities		
Letters of credit	1,077,025	699,577
Letters of guarantee	7,004,417	5,709,968
Acceptances	173,516	101,094
	8,254,958	6,510,639
Commitments		
Undrawn facilities commitments	2,047,396	6,034,200
Investment securities	144,200	144,200
Future capital expenditure	42,325	144,792
Investment and development properties	1,667,163	1,615,508
	3,901,084	7,938,700
	12,156,042	14,449,339

38 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a compliant alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

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

31 December 2010: Notional amount by term to maturity

	Negative fair value AED 000	Notional amount AED 000	Less than 3 months AED 000	3 months to 1 year AED 000	1 year to 5 years AED 000	Over 5 years AED 000
Shari'a compliant alternatives of swap (note 28)	8,642	915,117	-	734,500	180,617	-
<i>31 December 2009: Notional amount by term to maturity</i>						
Shari'a compliant alternatives of swap (note 28)	6,076	734,500	-	-	734,500	-

39 ZAKAT

The Bank's Articles of Association do not authorise management to pay Zakat directly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 128,696 thousand (2009: AED 121,020 thousand) and accordingly, Zakat is estimated at AED 0.05442 (2009: AED 0.06142) per outstanding share.

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40 CASH AND CASH EQUIVALENTS

	2010 AED '000	2009 AED '000
Cash and balances with central banks, short term	4,500,246	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions, short term	2,652,442	2,267,891
Murabaha and mudaraba with financial institutions, short term	9,304,138	5,929,007
Due to financial institutions, short term	(500,923)	(872,533)
	15,955,903	10,655,313

The following significant non-cash transactions have been excluded from the consolidated statement of cash flows:

	2010 AED '000	2009 AED '000
Transfer from other assets to investment properties (note 22)	6,997	-
Transfer from other assets to development properties (note 23)	87,457	15,197

41 RELATED PARTY TRANSACTIONS

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

During the year, significant transactions with related parties included in the consolidated income statement are as follows:

	Major shareholder AED '000	Directors AED '000	Associates AED '000	Others AED '000	Total AED '000
31 December 2010					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	1,195	-	1,195
Income from murabaha, mudaraba, ijara and other Islamic financing	117,620	134	-	152,536	270,290
Fees, commission and foreign exchange income, net	-	-	8,000	-	8,000
Operating expenses	-	183	-	-	183
Distribution to depositors and sukuk holders	59	44	2,083	3,055	5,241
31 December 2009					
Income from murabaha, mudaraba and wakala with financial institutions	-	-	2,378	-	2,378
Income from murabaha, mudaraba, ijara and other Islamic financing	136,537	359	-	85,478	222,374
Fees, commission and foreign exchange income, net	-	-	24	22	46
Operating expenses	-	348	-	-	348
Distribution to depositors and sukuk holders	1,146	57	1,433	291	2,927

The related party balances included in the consolidated statement of financial position were as follows:

	Major shareholder AED '000	Directors AED '000	Associates AED '000	Others AED '000	Total AED '000
31 December 2010					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	569,735	-	569,735
Murabaha, mudaraba, ijara and other Islamic financing	2,270,460	8,409	-	2,556,854	4,835,723
Other assets	3,982	-	2,736	183,694	190,412
	2,274,442	8,409	572,471	2,740,548	5,595,870
Due to financial institutions	-	-	1,800	-	1,800
Depositors' accounts	9,785	12,713	74,344	70,075	166,917
Other liabilities	4	-	420	1,563	1,987
	9,789	12,713	76,564	71,638	170,704
Undrawn facilities commitments	-	-	1,517	-	1,517
31 December 2009					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	113,756	-	113,756
Murabaha, mudaraba, ijara and other Islamic financing	2,338,206	7,380	-	1,346,524	3,692,110
Other assets	-	-	1,970	184,422	186,392
	2,338,206	7,380	115,726	1,530,946	3,992,258
Due to financial institutions	-	-	24,681	-	24,681
Depositors' accounts	555	3,976	59,127	48,168	111,826
Other liabilities	-	-	201	174	375
	555	3,976	84,009	48,342	136,882
Undrawn facilities commitments	-	615	-	175,067	175,682

Compensation of key management personnel

The compensation of key management personnel during the year was as follows:

	2010 AED '000	2009 AED '000
Salaries and other benefits	24,051	22,497
Employees' end of service benefits	2,253	2,200
	26,304	24,697

In accordance with the Ministry of Economy and Commerce interpretation of Article 119 of Federal Law No. 8 of 1984 (as amended), Directors' remuneration is treated as an appropriation from equity via consolidated statement of comprehensive income.

Board of Directors remuneration for 2010 amounting to AED 4,200 thousand is subject to the approval of the shareholders at the forthcoming Annual General Assembly. During 2010, AED 3,000 thousand was paid to Board of Directors pertaining to the year 2009 after the approval by the shareholders in the Annual General Assembly held on 21 April 2010.

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42 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Retail banking – Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahaat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking – Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Capital markets – Principally handling money market brokerage, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiary of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations – Other operations comprises mainly of Head Office, subsidiaries and associates other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

Business segments information for the year ended 31 December 2010 were as follows:

	Retail banking AED '000	Wholesale banking AED '000	Private banking AED '000	Capital markets AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	2,016,538	709,399	154,634	189,008	5,056	(618)	3,074,017
Operating expenses excluding provision for impairment, net	(850,005)	(174,043)	(77,197)	(54,456)	(82,432)	(63,107)	(1,301,240)
Operating profit (margin)	1,166,533	535,356	77,437	134,552	(77,376)	(63,725)	1,772,777
Provision for impairment, net	(165,465)	(399,509)	(58,730)	(6,050)	(119,458)	-	(749,212)
Profit (loss) for the year	1,001,068	135,847	18,707	128,502	(196,834)	(63,725)	1,023,565
Non-controlling interest	-	-	-	(220)	-	-	(220)
Profit (loss) for the year attributable to equity holders of the Bank	1,001,068	135,847	18,707	128,282	(196,834)	(63,725)	1,023,345
Assets							
Segmental assets	23,481,356	18,572,025	7,323,063	22,258,929	2,908,311	713,834	75,257,518
Liabilities							
Segmental liabilities	21,013,344	20,994,935	7,796,163	16,625,052	376,340	341,032	67,146,866

Business segments information for the year ended 31 December 2009 were as follows:

	Retail banking AED '000	Wholesale banking AED '000	Private banking AED '000	Capital markets AED '000	Real estate AED '000	Other operations AED '000	Total AED '000
Revenue and results							
Segment revenues, net	1,283,072	570,542	180,006	379,792	97,283	9,562	2,520,257
Operating expenses excluding provision for impairment, net	(618,456)	(143,494)	(57,993)	(51,192)	(86,855)	(35,422)	(993,412)
Operating profit (margin)	664,616	427,048	122,013	328,600	10,428	(25,860)	1,526,845
Provision for impairment, net	(290,990)	(1,049,909)	(56,986)	(10,070)	(40,864)	-	(1,448,819)
Profit (loss) for the year	373,626	(622,861)	65,027	318,530	(30,436)	(25,860)	78,026
Non-controlling interest	-	-	-	(248)	-	-	(248)
Profit (loss) for the year attributable to equity holders of the Bank	373,626	(622,861)	65,027	318,282	(30,436)	(25,860)	77,778
Assets							
Segmental assets	19,390,133	14,987,011	7,082,950	18,546,112	3,470,339	607,459	64,084,004
Liabilities							
Segmental liabilities	18,296,969	16,577,231	7,125,767	13,822,895	791,272	325,334	56,939,468

Geographical information

The Bank operates principally in only one geographic area, the United Arab Emirates. Accordingly no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is given.

43 RISK MANAGEMENT

43.1 Introduction

Risk is inherent in all of the Group's activities. It is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his responsibilities. The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

43.1.1 Risk management governance structure

Important changes were made during the course of the year to strengthen the overall governance structure of the group in the area of Risk Management. These changes were made as a natural consequence of the growth and development of the Bank's business. The key features are as follows:

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority.

Group Strategy Execution Committee ("GSEC")

The GSEC created during 2010, is responsible, amongst a number of other duties, for the review and approval of all major exposures and investments, within authorized limits and Board guidelines. The GSEC is appointed by the Board and has been given the delegated authority by the Board to assist the Groups executive management teams execute the Board's strategy and achieve the Group's strategic objectives. The authorities delegated to the GSEC by the Board, as they pertain to the Risk Management Governance function include:

- Reviewing and approving the delegation of approval authority to management in regard to the overall policies and procedures of the Group;
- Approving the authorities delegated to the Group's executives; and
- Approval of significant and high value transactions in regard to credit facilities, acquisitions and divestitures, new business initiatives and proprietary investments within the GSEC's delegation of authority.

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43 RISK MANAGEMENT *continued*

43.1 Introduction *continued*

43.1.1 Risk management governance structure *continued*

Group Strategy Execution Committee ("GSEC") continued

Duties and responsibilities of the GSEC are governed by a formally approved charter which is in line with industry best practice. The GSEC replaced the Executive Committee of the Board.

Group Risk Policy Committee ("GRPC")

The GRPC was newly formed during the course of the year. The GRPC is appointed by the Group Board to assist the Board in fulfilling its oversight responsibilities in respect of the following, for the Group:

- Approving and recommending to the Board when necessary the policies, standards, guidelines and procedures for risk assessment and risk management;
- Reviewing and approving the risk inherent in the business of the Group and the control processes with respect to such risks;
- Reviewing and approving the risk profile and the risk appetite of the Group;
- Reviewing the risk management, compliance and control activities of the Group; and
- Review and approve the Internal Capital Adequacy Assessment Process ("ICAAP") and Basel II implementation.

The GRPC is comprised of three directors, all of which are non executive directors, in addition to the Chief Executive Officer ("CEO") and the Group Chief Risk Officer ("GCRO") (non-voting member) and is chaired by a highly experienced and qualified subject matter expert, who is neither a director nor an employee of the Group. Duties and responsibilities of the GRPC are governed by a formally approved charter which is in line with industry best practice.

Audit and Governance Committee ("AGC")

The AGC comprises one independent member and two members representing the Board of the Bank. The AGC has the overall responsibility to oversee management activities relating to accounting and financial reporting policies and internal controls, auditing practices, and legal and regulatory compliance; to discuss the integrity of the Bank's financial statements and the adequacy and reliability of disclosures to shareholders, to review the qualifications and independence of the internal and external auditors, the performance of internal and external auditors, and to review and recommend to the Board, the corporate governance guidelines applicable to the Group. Duties and responsibilities of the AGC are governed by a formally approved charter which is in line with best practice.

- The Group Internal Audit Division ("GIAD") reports directly to the AGC, and provides independent validation of the business units' compliance with risk policies and procedures, together with a regular assessment as to the effectiveness and adequacy of the risk management function across the Bank.
- The risk management function is independent of the business divisions and is headed by the GCRO, who reports directly to the CEO.

The Bank realizes the importance of creating and maintaining a strong risk culture throughout the organization. The management of all types of risk is deeply embedded throughout the Bank as a core competency of every staff member. In order to promote this, the Bank places a high degree of importance on clearly written, well distributed and readily accessible policies, procedures and communication of risk issues across the Bank.

43.1.2 The Risk Management Group ("RMG")

An independent risk organization that works in close partnership with the rest of the business to support their activities, whilst safeguarding the risk profile of the Bank. The primary objectives of the RMG, headed by the GCRO are:

- Ensure adherence and compliance of individual and portfolio performance to agreed terms and policies;
- Institute prudent control mechanisms (process and systems);
- Approve commercial and consumer financing transactions within its delegated authority;
- Ensure compliance with local legal and regulatory guidelines; and
- Maintain the primary relationship with local regulators with respect to risk related issues.

Reporting to the GCRO are senior, seasoned and well qualified individuals who manage specific areas of risk expertise, amongst which are the Chief Credit Officer, the Market Risk Head, the Consumer Risk Head, the Financial Institution and Business Banking Risk Head, the Head of Operational Risk and the Risk Architecture Head, each supported as appropriate by individuals and systems.

During the course of the year, the "Asset Recovery Management Unit" was formed. This is a specialized unit specifically formed to manage corporate and private Bank relationships that are impaired and experiencing difficulties in meeting their obligations to the Bank. It is appropriately staffed with resources possessing the particular expertise and skill set that is required to effectively manage such category of relationship.

Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

On 27 November 2009, Central Bank of UAE published Circular 27/2009 with regard to Basel II implementation and submission of annual ICAAP report, the first of which was due on 1 March 2010. The Bank's ICAAP was diligently and comprehensively completed and submitted to Central Bank of UAE within the deadline. In addition, a detailed gap analysis was conducted in order to identify the Bank's current status viz-a-viz the requirements necessary to achieving Foundation Internal Ratings Based ("FIRB") approach as detailed in Central Bank of UAE Circular 27/2009. The results were formally presented to the Board together with a detailed plan aimed at achieving full compliance within the target date. This was subsequently approved by the Board. The Basel II FIRB implementation program was initiated in 2nd quarter of 2010, under the leadership of a dedicated Basel II Program Manager and team. As at close of 2010, the program was fully on schedule and progressing well, thus demonstrating the Bank's total commitment to full compliance with the requirements of the circular. This program, apart from meeting the requirements of the regulator, is materially enhancing and strengthening risk management capability of the Bank.

Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process is focused on planning, acquiring, and directing the flow of funds through the organisation. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a well defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of statement of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the GSEC through the CEO. The Credit Committee approves all the funded and non-funded transactions within limits as delegated by the Board. The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in the Bank Credit Policy & Procedures Manual. The policy manual enumerates the various requirements and procedures to be followed in bringing a relationship to the Bank and assessment of the risks involved. The Bank Credit Policy & Procedures manual was extensively revised and enhanced in the first quarter to fully align it with industry best practice.

43.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the Policy and Portfolio Management Unit and the Credit Administration units within the risk organization is tasked, in close partnership with the relevant business units, with the documentation and communication of credit and risk related policies, the maintenance and adherence of delegated credit approval authorities, and the monitoring and general adherence to risk related policies by the business units. Within the ambit of portfolio management, specific responsibilities include:

- Preparing portfolio reports across a diverse range of indicators such as portfolio concentrations by geography, industry type, product, risk rating etc which are used to analyse and monitor overall portfolio quality;
- Monitoring the integrity and consistency of data, including risk ratings, migration, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Setting and advising the values of input parameters to be used for the calculation of expected loss and economic capital requirements;
- Consolidation and consolidation of portfolio management data and reports for use by Executive Management and the Board; and
- The establishment and management of early warning tools to identify emerging risk problems.

On a monthly basis detailed reporting of industry, customer and geographic risks takes place and assessed against the risk profile and overall risk appetite of the Bank. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis.

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

The Bank actively uses collateral to reduce its credit risks.

43.1.4 Risk concentration

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

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 18 and 19.

43.1.5 Treasury

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

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43 RISK MANAGEMENT *continued*

43.1 Introduction *continued*

43.1.6 Group Internal Audit

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

43.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank controls credit risk by the use of a very focused target market which defines who the Bank is prepared to deal with from a risk profile perspective, the use of Risk Acceptance Criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty, close monitoring of credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of all counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

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

All commercial credit risk exposures are risk rated using Moody's Risk Analyst risk rating system, recognized as an industry wide standard. Consumer exposures are rated using a pool concept as required by Basel II.

Credit-related commitments risks

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

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position.

The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 2010 AED '000	Gross maximum exposure 2009 AED '000
Balances and Wakala deposits with Islamic banks and other financial institutions	16	2,906,382	2,467,919
Murabaha and Mudaraba with financial institutions	17	13,013,852	12,376,243
Murabaha and other Islamic financing	18	24,580,111	22,281,045
Ijara financing	19	25,649,171	19,943,653
Investments		1,145,746	536,658
Other assets		372,741	839,902
		67,668,003	58,445,420
Contingent liabilities	37	8,254,958	6,510,639
Commitments		2,047,396	6,034,200
Total		10,302,354	12,544,839
Total credit risk exposure		77,970,357	70,990,259

43.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2010 was AED 5,606,752 thousand (2009: AED 4,716,444 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

The distribution of the Group's financial assets by geographic region is as follows:

	Balances and wakala deposits with Islamic banks and other financial institutions AED '000	Murabaha and mudaraba with financial institutions AED '000	Murabaha and other Islamic financing AED '000	Ijara financing AED '000	Investments AED '000	Other assets AED '000	Total AED '000
31 December 2010							
UAE	2,264,096	12,193,125	23,387,881	24,774,860	811,574	372,741	63,804,277
Middle East	4,509	230,270	783,656	20,890	313,682	-	1,353,007
Europe	34,305	367,421	377,757	-	-	-	779,483
Others	603,472	223,036	30,817	853,421	20,490	-	1,731,236
Financial assets subject to credit risk	2,906,382	13,013,852	24,580,111	25,649,171	1,145,746	372,741	67,668,003
31 December 2009							
UAE	2,281,180	11,565,133	20,972,629	18,957,534	467,282	837,683	55,081,441
Middle East	4,483	324,292	819,356	26,112	69,376	2,219	1,245,838
Europe	62,728	228,939	421,544	-	-	-	713,211
Others	119,528	257,879	67,516	960,007	-	-	1,404,930
Financial assets subject to credit risk	2,467,919	12,376,243	22,281,045	19,943,653	536,658	839,902	58,445,420

The distribution of the Group's financial assets by industry sector is as follows:

	2010 AED '000	2009 AED '000
<i>Industry sector:</i>		
Government	781,084	696,092
Public sector	2,263,256	1,093,703
Financial institutions	17,475,861	15,725,189
Trading and manufacturing	1,598,264	1,192,246
Construction and real estate	7,486,697	5,677,305
Energy	521,217	501,384
Personal	29,989,940	25,733,701
Others	7,551,684	7,825,800
Financial assets subject to credit risk	67,668,003	58,445,420

43.2.3 Impairment assessment

The main consideration for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of the counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment losses and collective impairment provisions on financing assets.

Individually assessed impairment losses on financing assets

The Bank determines the allowances appropriate for each individually significant customer financing on an individual basis. Items considered when determining impairment loss amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

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31 December 2010

43 RISK MANAGEMENT *continued*

43.2 Credit risk *continued*

43.2.3 Impairment assessment *continued*

Collective impairment provisions on financing assets

Collective impairment provisions are assessed for losses on customer financing that are not individually significant where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individual assessed impairment, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

43.2.4 Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities,
- For retail financing, charge over assets, mortgage of properties and assignment of salaries in favour of the Bank.

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses. Management estimates the fair value of collaterals and other credit enhancements held against individually impaired financings assets approximating to be AED 1,207,378 thousand as at 31 December 2010 (2009: AED 905,597 thousand).

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

43.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing based on the Bank's credit rating system.

	Moody's equivalent grade	2010 AED '000	2009 AED '000
Low risk			
Risk rating class 1	Aaa	26,177	34,569
Risk rating classes 2 and 3	Aa1-A3	11,379,387	12,625,304
Risk rating class 4	Baa1-Baa3	6,910,592	4,524,467
Risk rating classes 5 and 6	Ba1-B3	40,388,416	34,734,774
Fair risk			
Risk rating class 7	Caa1-Caa3	3,547,708	2,377,432
Impaired			
Risk rating class 8, 9 and 10		3,897,236	2,772,314
		66,149,516	57,068,860

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing whose terms have been renegotiated during the year 2010 amounted to AED 919,453 thousand (2009: AED 947,431 thousand).

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any. The table shows the maximum exposure to credit risk / price risk for murabaha, mudaraba, ijara, other Islamic financing and investments.

	Balances and wakala deposits with Islamic banks and other financial institutions 31 December		Murabaha and mudaraba with financial institutions 31 December		Murabaha and other Islamic financing 31 December		Ijara financing 31 December		Investments 31 December	
	2010 AED '000	2009 AED '000	2010 AED '000	2009 AED '000	2010 AED '000	2009 AED '000	2010 AED '000	2009 AED '000	2010 AED '000	2009 AED '000
Individually impaired										
Substandard	-	-	186,476	-	625,853	354,738	846,627	550,890	68,142	6,421
Doubtful	-	-	-	117,983	952,964	699,179	347,371	282,057	91,813	68,651
Loss	-	-	129,811	127,306	789,389	583,146	18,745	57,015	9,571	9,571
Gross amount	-	-	316,287	245,289	2,368,206	1,637,063	1,212,743	889,962	169,526	84,643
Provision for individual impairment	-	-	(190,310)	(186,298)	(1,608,567)	(1,088,461)	(92,779)	(144,737)	(108,391)	(57,770)
	-	-	125,977	58,991	759,639	548,602	1,119,964	745,225	61,135	26,873
Past due but not impaired										
Gross amount	-	-	-	124,865	877,558	712,118	1,125,280	1,047,193	-	-
Neither past due nor impaired	2,906,382	2,467,919	12,697,565	12,006,089	21,334,347	19,931,864	23,311,148	18,006,498	1,578,279	983,151
Collective allowance for impairment	-	-	-	-	(289,023)	(281,694)	(286,321)	(235,906)	-	-
Carrying amount	2,906,382	2,467,919	12,823,542	12,189,945	22,682,521	20,910,890	25,270,071	19,563,010	1,639,414	1,010,024

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43 RISK MANAGEMENT *continued*

43.2 Credit risk *continued*

43.2.5 Credit quality per class of financial assets *continued*

An analysis of past due financing, by age, is provided below:

Ageing analysis of past due but not impaired

	Less than 30 days AED '000	31 -60 days AED '000	61 -90 days AED '000	More than 90 days AED '000	Total AED '000
2010					
Murabaha and Mudaraba with financial institutions	-	-	-	-	-
Murabaha and other Islamic financing	7,671	5,959	3,698	860,230	877,558
Ijara financing	17,614	24,219	52,892	1,030,555	1,125,280
	25,285	30,178	56,590	1,890,785	2,002,838
2009					
Murabaha and Mudaraba with financial institutions	-	-	-	124,865	124,865
Murabaha and other Islamic financing	23,958	41,423	30,430	616,307	712,118
Ijara financing	23	3,184	18,120	1,025,866	1,047,193
	23,981	44,607	48,550	1,767,038	1,884,176

More detailed information in respect of the allowance for impairment losses on murabaha and mudaraba with financial institutions, murabaha and other Islamic financing and ijara financing have been disclosed in notes 17, 18 and 19 respectively.

43.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of scenarios, given due consideration to stress factors relating to both the market in general and specifically to the Bank.

The high quality of the asset portfolio ensure its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

43.3.1 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2010					
ASSETS					
Cash and balances with central banks	4,500,246	900,089	-	-	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	2,652,442	253,940	-	-	2,906,382
Murabaha and mudaraba with financial institutions	9,304,138	3,324,334	82,974	112,096	12,823,542
Murabaha and other Islamic financing	2,994,160	3,763,028	11,296,464	4,628,869	22,682,521
Ijara financing	1,760,939	3,460,654	13,018,088	7,030,390	25,270,071
Investments	337,198	152,631	1,149,585	-	1,639,414
Investment in associates	-	-	-	837,195	837,195
Other assets	222,391	183,625	31,243	4,562	441,821
Financial assets	21,771,514	12,038,301	25,578,354	12,613,112	72,001,281
Non-financial assets					3,256,237
Total assets					75,257,518
LIABILITIES					
Due to financial institutions	500,923	390,467	-	-	891,390
Depositors' accounts	51,860,160	4,433,656	221,729	1,500	56,517,045
Other liabilities	978,111	665,294	448,095	-	2,091,500
Tier 2 Wakala capital	-	-	-	2,207,408	2,207,408
Sukuk financing instruments	-	2,938,000	2,501,523	-	5,439,523
Total liabilities	53,339,194	8,427,417	3,171,347	2,208,908	67,146,866

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2009					
ASSETS					
Cash and balances with central banks	3,330,948	-	-	-	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	2,267,891	200,028	-	-	2,467,919
Murabaha and mudaraba with financial institutions	5,929,007	5,335,514	792,411	133,013	12,189,945
Murabaha and other Islamic financing	2,942,375	4,560,622	10,499,751	2,908,142	20,910,890
Ijara financing	871,915	2,023,880	11,272,787	5,394,428	19,563,010
Investments	925	583,103	425,996	-	1,010,024
Investment in associates	-	-	-	738,132	738,132
Other assets	118,629	812,651	41,657	4,043	976,980
Financial assets	15,461,690	13,515,798	23,032,602	9,177,758	61,187,848
Non-financial assets					2,896,156
Total assets					64,084,004
LIABILITIES					
Due to financial institutions	872,533	397,443	8,542	-	1,278,518
Depositors' accounts	42,643,088	5,572,816	3,694	64	48,219,662
Other liabilities	1,404,797	647,626	243,457	-	2,295,880
Tier 2 Wakala capital	-	-	-	2,207,408	2,207,408
Sukuk financing instruments	-	-	2,938,000	-	2,938,000
Total liabilities	44,920,418	6,617,885	3,193,693	2,207,472	56,939,468

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43 RISK MANAGEMENT *continued*

43.3 Liquidity risk and funding management *continued*

43.3.2 Analysis of financial assets and financial liabilities by remaining contractual maturities *continued*

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

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
31 December 2010					
LIABILITIES					
Due to financial institutions	500,973	390,754	-	-	891,727
Depositors' accounts	51,906,626	4,510,188	232,014	2,002	56,650,830
Other liabilities	978,111	665,294	448,095	-	2,091,500
Tier 2 Wakala capital	-	-	-	2,853,075	2,853,075
Sukuk financing instruments	-	2,958,042	3,459,478	-	6,417,520
Total liabilities	53,385,710	8,524,278	4,139,587	2,855,077	68,904,652
31 December 2009					
LIABILITIES					
Due to financial institutions	872,714	397,838	8,542	-	1,279,094
Depositors' accounts	42,748,711	5,698,295	3,931	73	48,451,010
Other liabilities	1,327,852	647,626	243,457	-	2,218,935
Tier 2 Wakala capital	-	-	-	2,941,101	2,941,101
Sukuk financing instruments	-	-	3,027,189	-	3,027,189
Total liabilities	44,949,277	6,743,759	3,283,119	2,941,174	57,917,329

The disclosed financial instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year to 5 years AED '000	Over 5 years AED '000	Total AED '000
2010					
Contingent liabilities	4,688,822	1,680,027	1,886,109	-	8,254,958
Commitments	412,810	821,035	619,843	-	1,853,688
Total	5,101,632	2,501,062	2,505,952	-	10,108,646
2009					
Contingent liabilities	3,542,458	2,394,940	533,243	39,998	6,510,639
Commitments	90,253	406,862	1,407,385	-	1,904,500
Total	3,632,711	2,801,802	1,940,628	39,998	8,415,139

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

43.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limit to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

43.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability of the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary instrument is the rate that, when used in present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating instrument or an instrument carried at fair value.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

<i>Currency</i>	2010		2009	
	Increase in basis points	Sensitivity of profit on financial assets and liabilities AED '000	Increase in basis points	Sensitivity of profit on financial assets and liabilities AED '000
AED	50	80,657	50	136,483
USD	50	(6,021)	50	8,397
Euro	50	825	50	(74)
Other currencies	50	559	50	978

43.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on available-for-sale equity instruments).

<i>Currency</i>	2010		2009	
	Increase in currency rate in %	Effect on net profit AED '000	Increase in currency rate in %	Effect on net profit AED '000
USD	5	(33,766)	5	(35,982)
Euro	5	(279)	5	(7,159)
Other currencies	5	43,111	5	476

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43 RISK MANAGEMENT continued

43.4 Market risk continued

43.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	AED AED '000	USD AED '000	Euro AED '000	GBP AED '000	Others AED '000	Total AED '000
31 December 2010						
Assets						
Cash and balances with central banks	5,183,368	216,887	30	2	48	5,400,335
Balances and wakala deposits with Islamic banks and other financial institutions	1,754,931	1,111,158	31,028	2,969	6,296	2,906,382
Murabaha and mudaraba with financial institutions	4,758,756	7,574,750	167,361	210,579	112,096	12,823,542
Murabaha and other Islamic financing	21,038,194	1,552,740	88,719	2,868	-	22,682,521
Ijara financing	21,400,362	3,815,838	-	-	53,871	25,270,071
Investments	585,263	993,695	104	-	60,352	1,639,414
Investment in associates	117,337	-	32,300	-	687,558	837,195
Other assets	219,208	201,413	20,370	-	830	441,821
	55,057,419	15,466,481	339,912	216,418	921,051	72,001,281
Liabilities						
Due to financial institutions	109,859	490,350	56,065	179,937	55,179	891,390
Depositors' accounts	46,347,084	9,901,372	233,890	32,780	1,919	56,517,045
Other liabilities	1,691,900	310,562	88,939	51	48	2,091,500
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	5,439,523	-	-	-	5,439,523
	50,356,251	16,141,807	378,894	212,768	57,146	67,146,866
31 December 2009						
Assets						
Cash and balances with central banks	3,131,091	199,696	29	23	109	3,330,948
Balances and wakala deposits with Islamic banks and other financial institutions	1,343,149	1,056,607	57,904	4,646	5,613	2,467,919
Murabaha and mudaraba with financial institutions	5,433,837	6,171,985	116,483	334,627	133,013	12,189,945
Murabaha and other Islamic financing	19,628,860	1,282,030	-	-	-	20,910,890
Ijara financing	16,665,835	2,849,867	-	-	47,308	19,563,010
Investments	569,110	439,350	603	-	961	1,010,024
Investment in associates	106,091	-	35,118	-	596,923	738,132
Other assets	1,047,879	664,421	(1,302)	(216)	(733,802)	976,980
	47,925,852	12,663,956	208,835	339,080	50,125	61,187,848
Liabilities						
Due to financial institutions	359,219	546,108	76,689	248,681	47,821	1,278,518
Depositors' accounts	38,304,067	9,651,008	172,969	90,304	1,314	48,219,662
Other liabilities	1,946,932	248,472	100,351	95	30	2,295,880
Tier 2 wakala capital	2,207,408	-	-	-	-	2,207,408
Sukuk financing instruments	-	2,938,000	-	-	-	2,938,000
	42,817,626	13,383,588	350,009	339,080	49,165	56,939,468

43.4.3 Equity price risk

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

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

	2010			2009		
	% Increase in market indices	Effect on net profit AED '000	Effect on equity AED '000	% Increase in market indices	Effect on net profit AED '000	Effect on equity AED '000
Market indices						
Held for trading investments						
Abu Dhabi Exchange	10	182	-	10	-	-
Dubai Financial Market	10	510	-	10	-	-
Available-for-sale investments						
Others	10	-	5,789	10	-	-

43.4.4 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or system.

The Bank is developing and implementing a detailed operational risk framework in accordance with industry best practice and Basel II guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units across different functions of the Bank involved in performing various operational risk management tasks. The Operational Risk Management Framework ensures that operational risks within the Bank are properly identified, monitored, reported and actively managed. Key elements of the framework include process mapping, management of an operational loss database, key risk indicators, regular business unit level self assessment, risk analysis and risk management reporting.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operational risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being actively identified, monitored and managed within their respective business units. The day-to-day operational risk is managed also through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning, which is regularly assessed and tested.

43.5 Capital management

The Central Bank of the U.A.E sets and monitors capital requirements for the Group as a whole. The Central Bank of the U.A.E vide circular No. 4004/2009 dated 30 August 2009, requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 12% (2009: 11%) at all times in which Tier 1 capital should not be less than 8% (2009: 7%) of the total risk weighted assets. In implementing current capital requirements of the Central Bank of the U.A.E, the Group maintains the required ratio of the regulatory capital to total risk weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve and non-controlling interest after deductions of goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment provisions on financing assets (Basel II only) and the element of the fair value reserve relating to unrealised gains and losses on financial instruments classified as available-for-sale.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

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

The Bank has complied with all externally imposed requirements throughout the year.

The Central Bank of the U.A.E vide its notice 27/2009 dated 17 November 2009, requires all the banks operating in the U.A.E. to implement Standardised approach of Basel II. For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

Furthermore, as required by the above circular, certain Basel II pillar 3 disclosures will be included in the annual report issued by the Bank for the year 2010.

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43 RISK MANAGEMENT *continued*

43.5 Capital management *continued*

The table below shows summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December 2010 and 2009. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	Basel I		Basel II	
	2010 AED '000	2009 AED '000	2010 AED '000	2009 AED '000
Tier 1 capital				
Share capital	2,364,706	1,970,588	2,364,706	1,970,588
Legal reserve	1,754,899	1,754,475	1,754,899	1,754,475
General reserve	443,182	321,297	443,182	321,297
Retained earnings	984,069	724,632	984,069	724,632
Proposed dividends	511,783	394,118	511,783	394,118
Proposed dividends to charity	6,816	1,028	6,816	1,028
Tier 1 sukuk	2,000,000	2,000,000	2,000,000	2,000,000
Non-controlling interest	3,075	2,855	3,075	2,855
Total	8,068,530	7,168,993	8,068,530	7,168,993
Tier 2 capital				
Tier 2 wakala capital	2,207,408	2,207,408	2,207,408	2,207,408
Cumulative changes in fair value	(92,040)	(167,560)	(92,040)	(167,560)
Collective impairment provision for financing assets	-	-	575,344	517,600
Total	2,115,368	2,039,848	2,690,712	2,557,448
Total tier 1 and tier 2 capital	10,183,898	9,208,841	10,759,242	9,726,441
Deductions for Tier 1 and Tier 2 capital	(837,195)	(738,132)	(837,195)	(738,132)
Total capital base	9,346,703	8,470,709	9,922,047	8,988,309
Risk weighted assets				
On balance sheet	54,666,166	46,226,456	-	-
Off balance sheet	4,263,158	3,289,496	-	-
Credit risk	-	-	58,320,901	50,101,278
Market risk	-	-	1,008,157	585,580
Operational risk	-	-	2,565,177	2,323,706
Total risk weighted assets	58,929,324	49,515,952	61,894,235	53,010,564
Capital ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	15.86%	17.11%	16.03%	16.96%
Tier 1 capital expressed as a percentage of total risk weighted assets	13.69%	14.48%	13.04%	13.52%

44 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For available for sale investments, the impact of change in fair valuation from previously existing carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value

The consolidated financial statements include investments in unquoted funds, private equities and musharaka which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previously existing carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment in associates (note 21) and available-for-sale investments that are carried at cost (note 20)), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

Fair value of investments - at amortised cost

	31 December 2010		31 December 2009	
	Carrying amount AED '000	Fair value AED '000	Carrying amount AED '000	Fair value AED '000
Held to maturity investment - sukuk (note 20)	135,450	141,971	135,080	133,409

Fair value measurement recognized in the consolidated statement of financial position

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

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

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

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2010				
Financial assets				
<i>Held for trading investments</i>				
Equities	6,920	-	-	6,920
Sukuk	329,353	-	-	329,353
	336,273	-	-	336,273
<i>Available-for-sale investments</i>				
<i>Quoted investments</i>				
Equities	58,817	-	-	58,817
Sukuk	604,280	-	-	604,280
	663,097	-	-	663,097
<i>Unquoted investments</i>				
Funds	-	-	140,110	140,110
Private equities	-	-	276,549	276,549
	-	-	416,659	416,659
	999,370	-	416,659	1,416,029
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	-	8,642	-	8,642

Notes to the Consolidated Financial Statements

31 December 2010

44 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

Fair value measurement recognized in the consolidated statement of financial position *continued*

There were no transfers between level 1, 2 and 3 during the year.

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
31 December 2009				
Financial assets				
<i>Available-for-sale investments</i>				
<i>Quoted investments</i>				
Equities	925	-	-	925
Sukuk	298,555	-	-	298,555
	299,480	-	-	299,480
<i>Unquoted investments</i>				
Funds	-	-	125,823	125,823
Private equities	-	-	213,852	213,852
Musharaka	-	-	53,900	53,900
	-	-	393,575	393,575
	299,480	-	393,575	693,055
Financial liabilities				
Shari'a compliant alternatives of swap (note 28)	-	6,076	-	6,076

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	At 1 January 2010 AED '000	Fair value gain / (loss) recorded in income statement AED '000	Gains / (losses) recorded in equity AED '000	Transfers, purchases and settlements AED '000	At 31 December 2010 AED '000
Unquoted investments					
Funds	125,823	-	(19,266)	33,553	140,110
Private equities	213,852	(23,081)	(7,718)	93,496	276,549
Musharaka	53,900	-	-	(53,900)	-
	393,575	(23,081)	(26,984)	73,149	416,659

	At 1 January 2009 AED '000	Fair value gain / (loss) recorded in income statement AED '000	Gains / (losses) recorded in equity AED '000	Transfers, purchases and settlements AED '000	At 31 December 2009 AED '000
Unquoted investments					
Funds	118,129	-	(18,472)	26,166	125,823
Private equities	268,181	-	(54,329)	-	213,852
Musharaka	57,700	-	(3,800)	-	53,900
	444,010	-	(76,601)	26,166	393,575

45 COMPARATIVE FIGURES

Following comparatives were reclassified to conform to the current period presentation. The reclassification has no effect on the previously reported profit or equity of the Group:

- An amount of AED 38,950 thousand has been re-classified from "fees and commission income, net" and shown separately in the consolidated income statement as "foreign exchange income".

Basel II Pillar III Disclosure

The requirements of the Central Bank of the UAE act as the framework for the implementation of the Basel II Accord in the UAE. They are contained in Circular 27/2009 dated 17 November 2009 and are being fully complied with by the Bank.

The framework is based on three pillars:

- **Pillar I** – Minimum capital requirements: defines rules for the calculation of credit, market and operational risk. The framework allows for different approaches, which can be selected depending on size, sophistication and other considerations. These comprise for Credit Risk: Standardised, Foundation Internal Rating Based (FIRB), Advanced Internal Rating Based (AIRB); for Market Risk: Standardised and Internal Rating Based; and for Operational Risk: Basic Indicator Approach, Standardised Approach, and Advanced Measurement Approach.
- **Pillar II** – Provides the framework for an enhanced supervisory review process with the objective of assessing the adequacy of the Bank's capital to cover not only the three primary risks (Credit, Marketing and Operational), but in addition a series of other risks to which the Bank is subject; for example, residual risk, business risk etc. It includes the requirement for banks to undertake an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis, which is subject to Central Bank review and inspection.
- **Pillar III** – Market discipline: requires expanded disclosures not previously made public by banks, which will allow regulators, investors and other market participants to more fully understand the risk profiles of individual banks. The requirements of Pillar III in the case of ADIB are fulfilled in this annual report.

Banks are required to disclose all their material risks as part of the Pillar III framework. Many of these requirements have already been satisfied in note 43 to the 2010 ADIB Consolidated Financial Statements, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel II Accord in this regard.

The following Pillar III disclosures provide additional qualitative and quantitative information over and above that contained in note 43 to the 2010 ADIB Consolidated Financial Statements and, together with the information contained in note 43, meet the full disclosure requirements of Pillar III.

ADIB RISK PHILOSOPHY

Taking risk is at the core of the business of the Bank. All of the profit-making activities involve some measure of risk. Risk is also inherent in the internal business processes and systems, and as a result of external factors. In order for these risk-taking activities to generate a sufficient amount of profit to add to shareholder and depositor value, the risk is managed within the tolerance levels of the organisation and the overall risk appetite set by the Board of Directors. The following principles lie at the core of ADIB's risk philosophy:

- **Shari'a**: Full compliance with Shari'a Governance in all aspects.
- **Approval**: All business activities which commit the Bank, legally or morally, to deliver risk-sensitive financing solutions, and any business proposals, require approval by authorised individuals or committees, prior to commitment.
- **Independence**: There exists a clear separation between the business and the risk management functions.
- **Transparency**: Risk management structures, policies and procedures are transparent. They are based on consistent principles, in written form, and are well communicated.
- **One obligor total**: Decision authority is determined by the total amount of financing and/or capital at risk, approved for all entities that form a coherent group based on shareholding and/or management control.
- **Committee**: Decisions regarding policy, product, large or high-risk exposures are taken by the appropriate committee.
- **Approval authority**: Authorities are delegated by the Board of Directors to an Executive Committee, which in turn delegates authority through the Chief Executive Officer. These reflect the delegates' (committee or individual) level of expertise, experience, track record and seniority.
- **Three initials**: Risk proposals can only be approved with at least three authorised individuals forming an agreement within the framework set by the duly approved Credit Policy Manual.
- **Business responsibility**: Business units are responsible for the selection of clients and for managing all of the business activities with such clients within approved limits.
- **Credit administration & control**: Critical to ensuring ongoing compliance with policies, approval authorities, approval conditions etc.
- **Credit review/audit**: Periodic independent validation and review of the portfolio and the process across all business units.
- **Due diligence**: Regular and consistent customer contact, site visits, financial analysis, risk rating and stress testing.

RISK GOVERNANCE

ADIB's Risk Management Framework is focused towards integrating Enterprise-wide Risk Management fully into its operations and culture. The role of risk management is to support growth whilst ensuring consistent quality of the Bank's portfolio. The objective is to manage earnings volatility, which is achieved by setting clear risk-taking parameters and robust processes.

The Risk Governance Framework supports the Bank's objective of being a dynamic banking entity providing Islamic financial services of excellence, with insight and transparency in risk taking.

Please refer to note 43.1.1 of the 2010 ADIB Consolidated Financial Statements.

RISK APPETITE

The risk appetite of the Bank is defined as the quantum of risk that the Bank is willing to accept whilst pursuing its business strategy. This is done to ensure that, while implementing the strategy, internal and external events do not adversely affect its profitability, capital levels, market capitalisation, and other intangibles such as reputation and brand image.

The Bank defines its 'risk-bearing capacity' as the ability to bear risk in terms of available capital, and the ability to raise additional capital. It also covers the strength of operational processes in the Bank and the strength of its operating culture.

Accordingly, the Bank's current capital reflects its risk-bearing capacity. The Bank has calculated its capital adequacy under the Basel II guidelines as per Central Bank of the UAE requirements. Results indicate that the Bank's overall capital adequacy position is reasonable and that it takes risks commensurate with its level of capital.

COMPONENTS OF RISK MANAGEMENT

The management of risk is a process operated independently of the business units of the Bank. It consists of the following key components:

1. **Identification:** the Bank endeavours to identify all material risks that it may be affected by. Identification is a continuous and proactive process. It covers all the current activities of the Bank, as well as new products and markets.
2. **Policies:** In order to ensure that the Bank's business units comply with the approved Risk Management Framework, the Board of Directors has approved detailed Credit Risk Policies and Procedures, and various other policies covering the ALM Charter, Market Risk, Operational Risk and other risks as identified within the Basel II framework.
3. **Measurement and monitoring:** The Bank spends considerable resources on maintaining a modern IT platform to support risk management, applying a number of models and methods to accurately measure and quantify the risks affecting the Bank on an ongoing basis. The Bank continually monitors models and validates risk parameters to ensure that risk measurement gives a fair presentation of the underlying portfolios and transactions.
4. **Parameter applications:** In order to best capitalise on the Bank's risk appetite, the Bank applies risk-based data with regard to customers, industries, geographies etc. in the day-to-day management and review of customer transactions.
5. **Controls:** The Bank has established an independent control environment to monitor and enforce approved policies and procedures, and has various operational aspects with regard to consistent and thorough implementation of the same.
6. **Reporting:** The Bank has a well-established process for reporting risk factors to the various stakeholders of the Bank.

The Bank aims to reinforce a strong risk management culture through a comprehensive set of policies, processes and procedures that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors is involved both directly and through the Group Risk Policy Committee, formally established during the course of 2010, in the embedding of material risk processes and the periodic oversight and guidance of the risk management function.

Risk Management Structure: Please refer to note 43.1.1 of the 2010 ADIB Consolidated Financial Statements.

ASSESSMENT OF RISK GOVERNANCE EFFECTIVENESS

As a measure to evaluate the effectiveness of the Risk Governance Standards adopted by the Bank, an independent assessment was conducted as a part of the annual ICAAP, covering various aspects of the following standards:

- Publications of the Basel Committee for Banking Supervision on Sound Principles of Risk Management
- Publications of the Central Bank of the UAE

The assessment was divided into the following broad categories:

1. Risk management structure
2. Operational risk
3. Credit & concentration risk
4. Market risk
5. Profit rate risk in the banking book
6. Liquidity risk

The broad results of the assessment are as follows:

- * The Bank is following sound practices for Credit Risk, Market Risk, and Asset & Liability Management and all related areas, in accordance with the scale of its operations.
- * The Bank has a strong Credit Risk Management Framework. Financing Policy is clearly defined along a defined risk versus return strategy. Limits of exposures to individual and group borrowers are defined, together with lines of authority regarding the granting of new financing and extension of existing limits. In addition, policies for addressing recoveries are established, containing detailed delegations of authority.

Basel II Pillar III Disclosure

* There is a comprehensive Risk Policy Framework including policies for ALM and Market Risk, which includes Profit Rate Risk and Liquidity Risks. ALCO approval is required for the launching of all new products where profit rates are involved.

* The Bank is currently calculating Pillar I Operational Risk Capital Charge using the Basic Indicator Approach as specified by the Central Bank of the UAE. The Operational Risk Management function and processes are being embedded in the Bank following the framework articulated in the Sound Practices for Operational Risk published by the Basel Committee on Banking Supervision.

Credit risk and credit risk concentration: Please refer to note 43.2 of the 2010 ADIB Consolidated Financial Statements.

Liquidity risk and funding management: Please refer to note 43.3 of the 2010 ADIB Consolidated Financial Statements.

Market risk including profit rate risk, currency risk, and equity price risk: Please refer to note 43.4 of the 2010 ADIB Consolidated Financial Statements.

Operational risk: Please refer to note 43.4.4 of the 2010 ADIB Consolidated Financial Statements.

OTHER RISKS

Residual risk: This refers to the risk that recognised risk measurement and mitigation techniques used by the Bank prove less effective than expected. The Bank uses various techniques to mitigate the risk of the underlying credit exposure in the normal course of its business. The credit risk mitigation techniques generally used are either financial/non-financial collaterals or credit protection in the form of guarantees. These Credit Risk Mitigation Techniques are recognised for capital relief purposes under the Standardised Approach, except for non-financial collaterals, provided certain minimum criteria are present.

Reputation risk: Refers to the potential adverse effects that can arise from the Bank's reputation being sullied due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity etc. The approach adopted by the Bank to measure reputation risk depends on a variety of factors, including the size, nature and complexity of each of its core activities. The capital charge has been estimated assuming that no two extreme events will occur simultaneously. The Bank maintains a sound position in the market; it has not faced any major adverse publicity, deposit run or regulatory penalties over its long history. Its long-term rating of A+ was reconfirmed by Fitch in December 2010.

Business risk: Refers to the risk of the Bank's earnings and profitability arising from its strategic decisions, changes in business conditions, and improper implementation of decisions. Thus business risk arises due to external causes, out of strategies and choices that could cause loss to the Bank in the form of a reduction in shareholder value, loss of earnings etc. The Bank's current business plan is in alignment with its goals and targets.

Settlement risk: Occurs when the Bank simultaneously exchanges value with a customer or with another bank in settlement of a foreign exchange obligation or a similar type of obligation. The risk is that the scheduled payment is not received, thus creating a direct credit risk as well. In the UAE the Central Bank of the UAE manages clearing and settlement amongst the banks and is the lender of last resort, hence the risk of a 'gridlock' is considered negligible. In the case of foreign currency transactions with banks in other countries, the first protection against settlement risk is by dealing with only approved correspondent banks that have been rated by recognised rating agencies such as Moody's, S&P etc., as well as internally by the Bank. Any delayed settlements are closely monitored and the required procedural guidelines to be followed by Treasury and Back Office are in place.

STRESS TESTING

Stress testing refers to various techniques (quantitative and/or qualitative) used by the Bank to gauge its vulnerability to exceptional but plausible events. It is used as a risk management technique to evaluate the potential effects of a specific event and/or movement in a set of financial variables on the Bank's financial condition. Stress testing is based on the concept of 'proportionality and complexity' and its applicability to the activities of the Bank. Relevant factors include size, sophistication and diversification of activities, materiality of different risk types and the Bank's vulnerability to them, etc. Stress testing is an important part of the risk management function in the Bank.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

In accordance with the regulations of the UAE Central Bank, ADIB initiated the ICAAP process late in 2009 and submitted the final report to the UAE Central Bank within the stipulated deadline for 2009. The report for 2010 was also prepared and submitted in early 2011 as required. It is currently in the process of integrating ICAAP with the Capital Management and Risk Management cultures and practices within the Bank. The production of the annual ICAAP report has enabled the respective departments to carry out the activities highlighted to further enhance the comprehensive risk management and capital management processes, and to measure progress in this respect, year on year. The annual ICAAP process is seen as an important periodic review of all such activities, and is monitored by the Board.

BASEL II IMPLEMENTATION

Basel II activities and implementation are proceeding in accordance with the requirements and schedule defined by the UAE Central Bank Circular 27/2009 dated 17 November 2009.

Pillar III quantitative disclosures are contained in the tables on the following pages.

INFORMATION ON SUBSIDIARIES AND SIGNIFICANT INVESTMENT AS ON 31 DECEMBER 2010

	Country of Incorporation	% Ownership	Description	Accounting Treatment
SUBSIDIARIES				
Abu Dhabi Islamic Securities Company LLC	UAE	95	Equity Brokerage Services	Fully consolidated
Burooj Properties LLC	UAE	100	Real Estate Investment	Fully consolidated
ADIB Invest 1	BVI	100	Equity Brokerage Services	Fully consolidated
ADIB Sukuk Company Ltd.*	Cayman Island	-	Special Purpose Vehicle	Fully consolidated
Kawader Services Company LLC	UAE	100	Manpower Supply	Fully consolidated
SIGNIFICANT INVESTMENT				
National Bank for Development	Egypt	49	Banking	Equity Method
Abu Dhabi National Takaful PJSC	UAE	40	Islamic insurance	Equity Method
BBI Leasing and Real Estate D.O.O	Bosnia	32	Islamic leasing and real estate	Equity Method
Bosna Bank International D.D	Bosnia	27	Islamic banking	Equity Method

* The Bank does not have any direct holding in ADIB Sukuk Company Ltd and is considered to be a subsidiary by virtue of control.

CONSOLIDATED CAPITAL STRUCTURE AS ON 31 DECEMBER 2010

	Amount AED '000
Tier 1 Capital	
1. Share capital - Paid up	2,364,706
2. Reserves	
a. Legal reserve	1,754,899
b. Special reserve	-
c. General reserve	443,182
3. Retained earnings	1,502,668
4. Minority interest in the equity of subsidiaries	3,075
5. Innovative capital instruments	-
6. Tier 1 Sukuk	2,000,000
7. Other capital instruments	-
8. Surplus capital from insurance companies	-
Sub-total	8,068,530
Less: Deductions for regulatory calculation	-
Less: Deductions from Tier 1 capital	-
Tier 1 Capital - Subtotal	8,068,530
Tier 2 Capital	
1. Qualifying General provisions	575,344
2. Assets revaluation reserves	-
3. Cummulative changes in fair values	(92,040)
4. Hybrid (debt/equity) capital instruments	-
5. Tier 2 Wakala capital	2,207,408
Tier 2 Capital - Subtotal	2,690,712
Less: Other deduction from Tier 1 and Tier 2 capitals	(837,195)
Total eligible capital after deductions	9,922,047

1. Include minority interests in equity accounts of consolidated subsidiaries that take form of SPVs and moderate step-ups in instruments issued through SPV's, as well as directly issued Tier 1 instruments, subject to stringent conditions (refer to Basel Committee's press release, Instruments eligible for inclusion in Tier 1 capital - 27 October 1988) and limited to a maximum of 15% of Tier 1 capital.
2. Including undisclosed reserves, revaluation reserves, general provision/general loan loss reserves Hybrid debt capital instruments and subordinated debt.

Basel II Pillar III Disclosure

SUMMARY OF RISK WEIGHTED ASSETS AND CAPITAL REQUIREMENT ON 31 DECEMBER 2010

Description	Risk Weighted Assets AED '000	Capital Requirement AED '000
1. Credit Risk		
a. Standardised Approach	58,320,901	6,998,508
b. Foundation IRB		
c. Advanced IRB		
2. Market Risk		
a. Standardised Approach	1,008,157	120,979
b. Model Approach		
3. Operational Risk		
a. Standardised Approach	2,565,177	307,821
b. Standardised Approach/ASA		
c. Advanced Measurement Approach		
Total Capital requirements	61,894,235	7,427,308

GROSS CREDIT EXPOSURES BY CURRENCY TYPE AS ON 31 DECEMBER 2010

Currency	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off- Balance Sheet exposures AED '000	Total Non- Funded AED '000	Total AED '000
AED	44,715,246	6,703,997	425,265	8,591,474	60,435,982	2,047,396	5,368,473	7,415,869	67,851,851
Foreign Currency	5,514,036	9,216,237	720,481	1,000,587	16,451,341	-	2,886,485	2,886,485	19,337,826
Total	50,229,282	15,920,234	1,145,746	9,592,061	76,887,323	2,047,396	8,254,958	10,302,354	87,189,677

GROSS CREDIT EXPOSURES BY GEOGRAPHY AS ON DECEMBER 31 2010

GEOGRAPHIC DISTRIBUTION	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off- Balance Sheet exposures AED '000	Total Non- Funded AED '000	Total AED '000
United Arab Emirates	48,162,741	14,457,221	811,574	9,133,893	72,565,429	2,047,396	7,665,953	9,713,349	82,278,778
Middle east	804,546	234,779	313,682	159,918	1,512,925	-	396,626	396,626	1,909,551
Europe	377,757	401,726	-	104	779,587	-	165,476	165,476	945,063
Others	884,238	826,508	20,490	298,146	2,029,382		26,903	26,903	2,056,285
Total	50,229,282	15,920,234	1,145,746	9,592,061	76,887,323	2,047,396	8,254,958	10,302,354	87,189,677

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2010

INDUSTRY SEGMENT	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet exposures AED '000	Total Non-Funded AED '000	Gross AED '000
Agriculture, Fishing & related activities	106,168	-	-	-	106,168	-	53,586	53,586	159,754
Crude Oil, Gas, Mining & Quarrying	200,016	-	-	-	200,016	-	5,761	5,761	205,777
Manufacturing	799,060	-	-	-	799,060	1,517	168,263	169,780	968,840
Electricity & Water	497,966	-	-	-	497,966	148,226	10,443	158,668	656,634
Construction	6,894,667	-	428,958	434,430	7,758,055	92,400	4,315,713	4,408,114	12,166,169
Trade	701,254	-	97,950	-	799,204	44	731,539	731,583	1,530,787
Transport, Storage & Communication	371,833	-	-	-	371,833	-	221,243	221,243	593,076
Financial Institutions	1,445,470	15,920,234	110,157	265,678	17,741,539	-	1,219,260	1,219,260	18,960,799
Services	3,655,228	-	-	-	3,655,228	70,487	445,063	515,550	4,170,778
Government / Public sector	2,624,562	-	419,779	4,661,939	7,706,280	133,416	539,679	673,095	8,379,375
Retail/Consumer banking	29,989,940	-	-	214,345	30,204,285	1,588,595	175,025	1,763,620	31,967,905
All Others	2,943,118	-	88,902	4,015,669	7,047,689	12,711	369,383	382,094	7,429,783
Total	50,229,282	15,920,234	1,145,746	9,592,061	76,887,323	2,047,396	8,254,958	10,302,354	87,189,677

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2010

RESIDUAL CONTRACTUAL MATURITY	Customer Financings AED '000	Balances & placements with Banks & FI AED '000	Sukuk AED '000	Others AED '000	Total Funded AED '000	Commitments AED '000	Other Off-Balance Sheet exposures AED '000	Total Non-Funded AED '000
Less than 3 months	7,031,789	12,146,890	329,353	4,911,053	24,419,085	2,047,396	4,688,822	6,736,218
3 months to one year	7,223,682	3,578,274	11,517	2,472,508	13,285,981	-	1,680,027	1,680,027
One to five years	24,314,552	82,974	804,876	2,203,938	27,406,340	-	1,886,109	1,886,109
Over five years	11,659,259	112,096	-	4,562	11,775,917	-	-	-
Grand Total	50,229,282	15,920,234	1,145,746	9,592,061	76,887,323	2,047,396	8,254,958	10,302,354

Basel II Pillar III Disclosure

IMPAIRED CUSTOMER FINANCINGS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2010

INDUSTRY SEGMENT	OVERDUE			PROVISIONS		ADJUSTMENTS		Total Impaired Assets AED '000
	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	-	118,080	118,080	59,040	-	-	-	59,040
Manufacturing	-	31,744	31,744	8,119	-	-	-	23,625
Electricity & Water	-	233,883	233,883	233,883	-	-	-	-
Construction	2,365	558,219	560,584	192,498	-	-	-	368,086
Trade	268,779	267,834	536,613	109,341	-	-	-	427,272
Transport, Storage & Communication	5,700	10,691	16,391	5,190	-	-	-	11,201
Financial Institutions	-	475,247	475,247	452,822	-	-	-	22,425
Services	78,346	88,485	166,831	107,735	-	-	-	59,096
Government	-	-	-	-	-	-	-	-
Retail/Consumer banking	190,511	1,246,151	1,436,662	532,251	-	-	-	904,411
All Others	-	4,912	4,912	467	-	-	-	4,445
Total	545,701	3,035,246	3,580,947	1,701,346	-	-	-	1,879,601

1. Agriculture, Fishing and Allied Activities includes cultivation of crops, dairy and poultry farming, fishing & other activities (sheep rearing, etc.).
2. Crude Oil, Gas, Mining and Quarrying include crude petroleum, natural gas and others.
3. Manufacturing includes food, tobacco, beverages, textiles, leather, footwear, clothing, furniture, fixtures, other wood products, paper, paper products, printing presses, chemical, chemical products, petroleum refining, petrochemicals, basic metal products including aluminium, fabricated metal products, machinery, equipment, construction materials (brick tiles, etc.), cement, ship building, engineering work, saw mills, marble tiles and other manufacturing.
4. Construction includes construction of buildings, contractors and other construction.
5. Trade includes wholesale trade in construction materials, consumer durables, motor vehicles, non-durables and retail trade.
6. Transport and communication includes taxis, and other land transport, water transport, air transport, warehousing, storage and others.
7. Financial Institutions include insurance companies, money and exchange dealers, NBFCS and other financial institutions.
8. Services include hotel restaurants, professional services, repair work (repair of motor vehicles, a/cs, etc.), recreation services (cinemas, sport club, etc.) and other services.
9. Government includes federal government and local government .
10. Retail/consumer lending includes personal loan installments, residential mortgages loans, car loans, credit cards, other retails products, loans for investments in shares etc.

IMPAIRED CUSTOMER FINANCINGS BY GEOGRAPHY AS ON 31 DECEMBER 2010

Geographic Region	OVERDUE			PROVISIONS		ADJUSTMENTS		Total Impaired Assets AED '000
	Less than 90 Days AED '000	90 Days and above AED '000	Total AED '000	Specific AED '000	General AED '000	Write-offs AED '000	Write-Backs AED '000	
United Arab Emirates	221,031	2,187,231	2,408,262	866,298	-	-	-	1,541,964
Middle East	78,346	729,935	808,281	712,592	-	-	-	95,689
Europe	246,324	118,080	364,404	122,456	-	-	-	241,948
Others	-	-	-	-	-	-	-	-
Grand Total	545,701	3,035,246	3,580,947	1,701,346	-	-	-	1,879,601

Note: Jurisdictions should not be included more than once under the geographic region

**RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED CUSTOMER FINANCINGS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Description	AED '000
	Opening Balance of Provisions for Impaired Customer Financings	1,750,798
Add:	Charge for the year	525,892
	- Specific provisions	499,518
	- General provisions	57,744
Add:	Write-off of impaired loans to income statement	(31,370)
Less:	Recovery of loans loss provisions	-
Less:	Recovery of loans previously written-off	-
Less:	Write-back of provisions for loans	-
	Closing Balance of Provisions for impaired Loans	2,276,690

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS ON 31 DECEMBER 2010

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET	CREDIT RISK MITIGATION (crm)			Risk weighted assets AED '000
	Gross outstanding AED '000	Net exposure after credit conversion factors (CCF) AED '000	Exposure Before CRM AED '000	CRM AED '000	After CRM AED '000	
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions						
Claims on sovereigns	5,016,323	-	5,016,323	-	5,016,323	22,418
Claims on non-central government public sector entities (pse)	2,358,095	-	2,358,095	-	2,358,095	1,612,873
Claims in multi lateral development banks	65,653	-	65,653	-	65,653	-
Claims on banks	14,441,513	4,629	14,446,143	-	14,446,143	5,755,708
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	11,730,008	4,633,937	16,363,945	1,647,482	14,716,463	14,572,405
Claims included in the regulatory retail portfolio	18,169,846	-	18,169,846	-	18,169,846	14,377,007
Claims secured by residential property	6,331,391	-	6,331,391	-	6,331,391	4,971,466
Claims secured by commercial real estate	7,573,844	-	7,573,844	-	7,573,844	7,573,844
Past due loans	5,794,355	-	3,902,698	-	3,902,698	4,851,258
High risk categories	504,594	-	504,594	-	504,594	756,891
Other assets	4,901,701	-	4,901,702	-	4,901,702	3,827,031
Claims on securitised assets	-	-	-	-	-	-
Credit derivatives (banks selling protection)	-	-	-	-	-	-
Total Claims	76,887,323	4,638,566	79,634,234	1,647,482	77,986,752	58,320,901

Basel II Pillar III Disclosure

CREDIT RISK - GENERAL DISCLOSURE - STANDARDISED APPROACH AS (RATED / UNRATED) ON 31 DECEMBER 2010

Asset Class	Gross Credit Exposures					Exposures Subject to Deduction				
	Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000	Rated AED '000	Unrated AED '000	Total AED '000	Post CRM AED '000	RWA Post CRM AED '000
Claims on Sovereigns	-	5,016,323	5,016,323	5,016,323	22,418	-	-	-	-	-
Claims in Public Sector Entities	-	2,358,095	2,358,095	2,358,095	1,612,873	-	-	-	-	-
Claims on Multilateral Development Banks	-	65,653	65,653	65,653	-	-	-	-	-	-
Claims on Banks	12,371,533	2,074,610	14,446,143	14,446,143	5,755,708	-	-	-	-	-
Claims on securitites firms	-	-	-	-	-	-	-	-	-	-
Claims on Corporate	-	16,363,945	16,363,945	14,716,463	14,572,405	-	-	-	-	-
Regulatory & other retail exposure	-	18,169,846	18,169,846	18,169,846	14,377,007	-	-	-	-	-
Residential retail exposure	-	6,331,391	6,331,391	6,331,391	4,971,466	-	-	-	-	-
Commercial Real Estate	-	7,573,844	7,573,844	7,573,844	7,573,844	-	-	-	-	-
Past Due Loans	-	3,902,698	3,902,698	3,902,698	4,851,258	-	-	-	-	-
High Risk Category	-	504,594	504,594	504,594	756,891	-	-	-	-	-
Other Assets	-	4,901,702	4,901,702	4,901,702	3,827,031	-	-	-	-	-
Claims on Securitised Assets	-	-	-	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-	-	-	-	-
Grand total	12,371,533	67,262,701	79,634,234	77,986,752	58,320,901	-	-	-	-	-

CREDIT RISK MITIGATION: DISCLOSURES FOR STANDARDIZED APPROACH AS ON 31 DECEMBER 2010

	Exposures AED '000	Risk Weighted Assets AED '000
Gross Exposure prior to Credit Risk Mitigation	4,428,696	4,428,696
Less: Exposure covered by on-balance sheet netting		
Less: Exposures covered by Eligible Financial Collateral	1,647,482	1,647,482
Less: Exposures covered by Guarantees		
Less: Exposures covered by Credit Derivatives		
Net Exposures after Credit Risk Mitigation	2,781,214	2,781,214

CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDISED APPROACH AS ON 31 DECEMBER 2010

Market Risk	Amount AED '000
Interest rate risk	17,374
Equity position risk	1,661
Foreign exchange risk	101,944
Commodity risk	-
Total Capital Requirement	120,979

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2010

1) Details of equity position by type

Type	Current Year	
	Publicly Traded AED '000	Privately Held AED '000
Government	222,364	
Financial Institutions	149,687	198,215
Trading and manufacturing	24,500	-
Construction and real estate	324,827	304,957
Energy	11,517	-
Others	65,654	1,420
Total	798,549	504,592

2) Realised and unrealised revaluation gains (losses) during the year

	Amount AED '000
Realised gains (losses) from sales and liquidations	25
*Unrealised gains (losses) recognized in the balance sheet but not through profit and loss account	(92,040)
Total	(92,015)

3) Items in (2) above included in tier1/tier 2 capital

	Amount AED '000
Tier Capital	
Amount included in Tier 1 Capital	25
Amount included in Tier 2 Capital	(92,040)
Total	(92,015)

EQUITIES DISCLOSURE FOR BANKING BOOK POSITIONS 31 DECEMBER 2010

Capital requirements by equity groupings

Grouping	Capital requirement
Government	-
Financial Institutions	447,009
Trading and manufacturing	24,500
Construction and real estate	778,806
Energy	11,517
Others	2,134
Total Capital requirement	1,263,966