EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

بنك الإمارات دبي الوطني
Emirates NBD

EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

Contents **Page**

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates NBD PJSC ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2011.

The Bank was incorporated in the UAE on 16 July 2007, pursuant to the approval from the Central Bank of the UAE on 3 July 2007, to grant the Bank a banking licence.

The financial statements are being prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Preparation of Financial Statements

The Group consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the laws of the U.A.E.

Financial Commentary

The Group reported a consolidated profit (attributable to equity holders) of AED 2,531 million for the year 2011, which represents an increase of 8% over 2010. In response to the current economic climate, the Group has continued to focus on:

- Optimising the balance sheet by proactively managing liquidity which has resulted in an improvement in the funding position and reduced funding costs;
- Driving profitability through key account planning, enhanced sales efficiency, improved customer retention, enhanced customer service and capturing efficiency and process improvements through outsourcing;
- Further enhancing the employee proposition through talent/leadership development as well as performance and retention management, continued enhancement of the Group wide Risk strategy and continued upgrading and enhancement of IT platforms;
- Undertaking measured investments in growth areas such as Private Banking, strengthening the SME segment, continued distribution network expansion/optimization and continued investment in growing the Group's reach in Abu Dhabi and KSA.

The Group has achieved an improvement of 2% in the total income in 2011 compared to 2010.

The consolidated profits have been adversely affected by the global downturn in the form of increased provisions.

Group Earning per Share increased to AED 0.41 (2010: AED 0.37).

The Group achieved a return on average tangible equity of 10.2% (2010: 10.3%) and return on average total assets of 0.87% (2010: 0.82%).

Equity Holders' Funds

Total equity holders' funds as at the end of 2011 stands at AED 25,104 million (excluding Tier 1 capital notes, goodwill and intangibles).

Dividends and Proposed Appropriations

The Directors have recommended a cash dividend of 20% to be paid out of the 2011 profit.

The Directors also propose the following appropriations from retained earnings:

		AED million
Retained earnings as at 01 January 2011		6,700
Group profit for the year (attributable to equity holders)		2,531
Retained earnings available for appropriation		9,231
(a)	Transfer to Legal and statutory reserves	(253)
(b)	2010 Cash dividend of 20% paid during 2011	(1,111)
(c)	Interest on Tier 1 Capital Notes	(262)
(d)	Directors' fees for 2011 *	(17)
Balance of retained earnings as at 31 December 2011		7,588

* Directors' fees include fees paid to directors of Emirates NBD, Emirates NBD Securities, Emirates NBD Asset Management, Emirates Financial Services, Emirates NBD Properties, Emirates NBD Capital, Emirates Money Consumer Finance, ETFS and Emirates Fund Managers (Jersey) Limited. It also includes fees for the Board Audit Committee, Board Risk Committee, Board Nomination & Remuneration Committee and Board Credit & Investment Committee.

Appointment of Directors and attendance at Board and Committee meetings during 2011

The following Board of Directors were appointed to be representatives of Dubai Government by virtue of a decision issued on 25th June 2011 by Vice President and Prime Minister and in his capacity as Ruler of Dubai:

H.H. Sheikh Ahmed Bin Saeed Al Maktoum	**Chairman**
Mr. Hesham Abdulla Al Qassim	**Vice Chairman**
Mr. Mohamed Hamad Obaid Khamis Al Shehi	**Director**
Mr. Mohamed Hadi Ahmad Al Hussaini	**Director**
Mr. Shoaib Mir Hashem Khoory	**Director**

and the following members continued their Board membership:

H.E. Khalid Juma Al Majid	**Director**
H.E. Abdulla Sultan Mohamed Al Owais	**Director**
Mr. Hussain Hassan Mirza Al Sayegh	**Director**
Mr. Buti Obaid Buti Al Mulla	**Director**

Emirates NBD Board (ENBD) **Total No. of meetings : 8** **Total Duration : 19:50 hrs**

ENBD Board Audit Committee (BAC)

Mr. Hussain Hassan Mirza Al Sayegh (Chairman of the Committee)
Mr. Shoaib Mir Hashem Khoory (Member)
Mr. Mohamed Hamed Obaid Al Shehi (Member)
Mr. Mohammad Hadi Ahmad Al Hussaini (Member)

Total No. of meetings : 7 **Total Duration : 12:0 hrs**

ENBD Board Nomination & Remuneration Committee (BN&RC)

Mr. Butti Obaid Butti Al Mulla (Chairman of the Committee)

H.E. Khalid Juma Al Majid (Member)

H.E. Abdulla Sultan Mohamed Al Owais (Member)

Mr. Mohammad Hadi Ahmad Al Hussaini (Member)

Total No. of meetings : 3 **Total Duration : 2:15 hrs**

ENBD Risk Committee (BRC)

Mr. Hesham Abdulla Al Qassim (Chairman of the Committee)

H.E. Abdulla Sultan Mohamed Al Owais (Member)

Mr. Hussain Hassan Mirza Al Sayegh (Member)

Mr. Butti Obaid Butti Al Mulla (Member)

Total No. of meetings : 4 **Total Duration : 09:50 hrs**

ENBD Board Credit & Investment Committee (BCIC)

Mr. Hesham Abdulla Al Qassim (Chairman of the Committee)

H.E. Abdulla Sultan Mohamed Al Owais (Member)

Mr. Shoaib Mir Hashem Khoory (Member)

Mr. Mohamed Hamad Obaid Al Shehi (Member)

Mr. Mohammad Hadi Ahmad Al Hussaini (Member)

Total No. of meetings : 28 **Total Duration : 55:05 hrs**

Auditors:
KPMG were appointed as auditors of the Emirates NBD Group for 2011 financial year in the Annual General Meeting held on 23 March 2011.

On behalf of the Board

H.H. Sheikh Ahmed
Bin Saeed Al Maktoum
Chairman Emirates NBD
Dubai, UAE
14 February 2012

Independent Auditor's Report

The Shareholders
Emirates NBD PJSC

Report on the Consolidated Financial Statements

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

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 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the 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 consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

Report on Other Legal and Regulatory Requirements

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

Name : **Vijendra Nath Malhotra**
Registration No. : 48B
KPMG
Dubai
United Arab Emirates

14 FEB 2012

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	2011 AED 000	2010 AED 000
ASSETS			
Cash and deposits with Central Bank	4	21,526,137	37,682,944
Due from banks	5	19,851,579	13,850,467
Loans and receivables	6	176,815,034	177,003,613
Islamic financing and investment products	8	26,325,279	19,219,912
Trading securities	9	588,679	1,329,907
Investment securities	10	15,883,727	14,365,803
Investments in associates and joint ventures	12	2,041,459	1,411,687
Positive fair value of derivatives	37	2,398,874	2,445,559
Investment properties	13	1,130,916	1,907,291
Goodwill and intangibles	15	5,831,018	5,924,878
Customer acceptances	42	3,777,759	4,632,810
Other assets	16	5,865,935	3,138,764
Property and equipment	14	2,576,990	2,336,860
Assets held for sale	11	-	827,829
TOTAL ASSETS		**284,613,386**	**286,078,324**
LIABILITIES			
Due to banks	17	26,105,233	18,856,725
Customer deposits	18	154,013,407	159,872,602
Islamic customer deposits	19	39,300,646	40,099,406
Repurchase agreements with banks	20	2,519,660	892,309
Debt issued and other borrowed funds	21	15,636,867	19,415,809
Sukuk payable		1,239,181	1,267,185
Negative fair value of derivatives	37	2,068,771	1,969,346
Customer acceptances	42	3,777,759	4,632,810
Other liabilities	22	4,970,808	4,838,825
Liabilities held for sale	11	-	483,717
TOTAL LIABILITIES		**249,632,332**	**252,328,734**
EQUITY			
Issued capital	23	5,557,775	5,557,775
Treasury shares		(46,175)	(46,175)
Tier I capital notes	24	4,000,000	4,000,000
Share premium reserve	23	12,270,124	12,270,124
Legal and statutory reserve	25	2,451,405	2,198,205
Other reserves	25	2,869,533	2,869,533
Fair value reserve	25	248,289	105,899
Currency translation reserve	25	(3,686)	-
Retained earnings		7,587,509	6,700,409
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		34,934,774	33,655,770
Non-controlling interest		46,280	93,820
TOTAL EQUITY		**34,981,054**	**33,749,590**
TOTAL LIABILITIES AND EQUITY		**284,613,386**	**286,078,324**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 4.

Chairman　　Vice Chairman　　Chief Executive Officer

14 FEB 2012

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	2011 AED 000	2010 AED 000
Interest income	26	10,283,230	11,288,438
Interest expense	26	(3,568,218)	(4,922,924)
Net interest income		**6,715,012**	**6,365,514**
Income from Islamic financing and investment products	27	1,281,565	1,378,311
Distribution to depositors and profit paid to Sukuk holders	28	(738,318)	(948,961)
Net income from Islamic financing and investment products		**543,247**	**429,350**
Net interest income and income from Islamic financing and investment products net of distribution to depositors		**7,258,259**	**6,794,864**
Fee and commission income		2,000,864	2,596,195
Fee and commission expense		(163,743)	(757,120)
Net fee and commission income	29	**1,837,121**	**1,839,075**
Net (loss) / gain on trading securities	30	(139,635)	52,892
Other operating income	31	974,357	1,034,656
Total operating income		**9,930,102**	**9,721,487**
General and administrative expenses	32	(3,507,734)	(3,053,289)
Net impairment loss on financial assets	33	(4,969,843)	(3,189,967)
Net impairment loss on non-financial assets		(8,121)	-
Total operating expenses		**(8,485,698)**	**(6,243,256)**
Operating profit		**1,444,404**	**3,478,231**
Amortisation of intangibles	15	(93,860)	(93,860)
Impairment and share of loss of associates & joint ventures	12	(653,992)	(1,024,330)
Gain on disposal of 49% stake in subsidiary and fair value gain on retained interest in joint venture	11	1,812,798	-
Taxation charge		(25,867)	(20,858)
Group profit for the year		**2,483,483**	**2,339,183**
Attributable to:			
Equity holders of the Group		2,531,023	2,339,508
Non-controlling interest		(47,540)	(325)
Group profit for the year		**2,483,483**	**2,339,183**
Earnings per share	36	**0.41**	**0.37**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 4.

بنك الإمارات دبي الوطني
Emirates NBD

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 AED 000	2010 AED 000
Group profit for the year	2,483,483	2,339,183
Other comprehensive income		
Cash flow hedges:		
- Effective portion of changes in fair value	17,162	69,525
Fair value reserve (available-for-sale financial assets):		
- Net change in fair value	288,578	1,031,300
- Net amount transferred to income statement	(163,350)	(266,154)
Currency translation reserve	(3,686)	-
Other comprehensive income for the year	138,704	834,671
Total comprehensive income for the year	**2,622,187**	**3,173,854**
Attributable to:		
Equity holders of the Bank	2,669,727	3,174,179
Non-controlling interest	(47,540)	(325)
Total recognised income for the year	**2,622,187**	**3,173,854**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 4.

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 AED 000	2010 AED 000
OPERATING ACTIVITIES		
Group profit for the year	2,483,483	2,339,183
Adjustment for non cash items		
Impairment loss on loans and receivables	4,130,570	2,555,998
Impairment loss on Islamic financing and investment products	604,705	320,125
Impairment loss on investment securities	221,514	285,587
Interest unwind on impaired loans	(106,952)	-
Fair value gain on debt issued and borrowed funds	(160,000)	-
Impairment loss on investment in associates	676,000	360,000
Amortisation of intangibles	93,860	93,860
Depreciation of property and equipment	289,500	271,263
Impairment loss on non-financial assets	8,121	
Fixed assets written-off	29,365	-
Share of (gain)/loss of associates and joint ventures	(22,008)	664,330
Amortised portion of gain on sale of joint ventures	(19,524)	-
Unrealized loss/(gain) on investment securities	206,450	(36,840)
Gain on disposal of 49% stake in subsidiary and fair value gain on retained interest in joint venture	(1,812,798)	-
Revaluation of investment properties	288,799	215,974
Operating profit before changes in operating assets and liabilities	**6,911,085**	**7,069,480**
Increase in interest free statutory deposits	(1,911,699)	(424,793)
Decrease/(increase) in certificate of deposits with Central Bank	18,550,000	(17,550,000)
(Increase)/decrease in amounts due from banks maturing after 3 months	(2,753,079)	79,610
Increase in amounts due to banks maturing after 3 months	1,797,988	722,332
Net change in other liabilities/other assets	(2,744,572)	(266,743)
Net change in fair value of derivatives	163,272	(11,226)
(Decrease)/increase in customer deposits	(6,657,955)	18,809,617
(Increase)/decrease in loans and receivables	(3,835,038)	15,143,078
(Increase)/decrease in Islamic financing and investment products	(7,710,073)	371,574
Net cash flows from operating activities	**1,809,929**	**23,942,929**
INVESTING ACTIVITIES		
(Increase)/decrease in trading and investment securities (net of fair value movements)	(1,079,432)	1,515,228
Decrease in investments in associates and joint ventures	13,766	5,896
Sale of investment in subsidiary	1,551,300	-
Increase in investment properties (net)	(21,598)	(415,654)
Additions to property and equipment (net)	(467,116)	(489,593)
Net cash flows (used in)/from investing activities	(3,080)	615,877
FINANCING ACTIVITIES		
Increase/(decrease) in deposits under repurchase agreements	1,627,351	(2,723,132)
Decrease in debt issued and other borrowed funds	(3,778,942)	(4,656,363)
Decrease in Sukuk borrowing	(28,004)	-
Interest on tier I capital notes	(261,583)	(261,583)
Dividends paid	(1,111,555)	(1,111,555)
Net cash flows used in financing activities	**(3,552,733)**	**(8,752,633)**
(Decrease)/increase in cash and cash equivalents (refer Note 46)	**(1,745,884)**	**15,806,173**

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 4.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP											
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Currency translation reserve (c)	Retained earnings	Total	Non-controlling interest	Group total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2011	5,557,775	(46,175)	4,000,000	12,270,124	2,198,205	2,869,533	105,899	-	6,700,409	33,655,770	93,820	33,749,590
Total comprehensive income for the year	-	-	-	-	-	-	142,390	(3,686)	2,531,023	2,669,727	(47,540)	2,622,187
Interest on tier I capital notes	-	-	-	-	-	-	-	-	(261,583)	(261,583)	-	(261,583)
Dividends paid	-	-	-	-	-	-	-	-	(1,111,555)	(1,111,555)	-	(1,111,555)
Transfer to reserves	-	-	-	-	253,200	-	-	-	(253,200)	-	-	-
Directors' fees (refer Note 34)	-	-	-	-	-	-	-	-	(17,585)	(17,585)	-	(17,585)
Balance as at 31 December 2011	5,557,775	(46,175)	4,000,000	12,270,124	2,451,405	2,869,533	248,289	(3,686)	7,587,509	34,934,774	46,280	34,981,054

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on page 4.

Notes:

(a) For further details refer to Note 23
(b) For further details refer to Note 24
(c) For further details refer to Note 25

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP										
	Issued capital (a)	Treasury shares	Tier I capital notes (b)	Share premium Reserve (a)	Legal and statutory reserve (c)	Other reserves (c)	Fair value reserve (c)	Retained earnings	Total	Non-controlling interest	Group total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2010	5,557,775	(46,175)	4,000,000	12,270,124	1,964,205	2,869,533	(728,772)	5,989,809	31,876,499	94,145	31,970,644
Total comprehensive income for the year	-	-	-	-	-	-	834,671	2,339,508	3,174,179	(325)	3,173,854
Interest on tier I capital notes	-	-	-	-	-	-	-	(261,583)	(261,583)	-	(261,583)
Dividends paid	-	-	-	-	-	-	-	(1,111,555)	(1,111,555)	-	(1,111,555)
Transfer to reserves	-	-	-	-	234,000	-	-	(234,000)	-	-	-
Directors' fees (refer Note 34)	-	-	-	-	-	-	-	(21,770)	(21,770)	-	(21,770)
Balance as at 31 December 2010	5,557,775	(46,175)	4,000,000	12,270,124	2,198,205	2,869,533	105,899	6,700,409	33,655,770	93,820	33,749,590

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 11 to 120 form part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on page 4.

Notes:

(a) For further details refer to Note 23
(b) For further details refer to Note 24
(c) For further details refer to Note 25

1 CORPORATE INFORMATION

Emirates NBD PJSC, (the "Bank") was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Bank was incorporated principally to give effect to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"). The merger became effective from 16 October 2007, while the legal merger was completed on 4 February 2010. Post this date, EBI and NBD ceased to exist.

The consolidated financial statements for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint ventures.

The Bank is listed on the Dubai Financial Market (TICKER: "EMIRATESNBD"). The Group's principal business activity is corporate, consumer, treasury, investment banking, Islamic financing and asset management services. The Bank's website is www.emiratesnbd.com. For details of activities of subsidiaries, refer to Note 40.

The registered address of the bank is Post Box 777, Dubai, United Arab Emirates ("UAE").

The parent company of the Group is Investment Corporation of Dubai, a company in which the Government of Dubai is the majority shareholder.

2 BASIS OF PREPARATION

(a) Statement of compliance:

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the laws of the U.A.E.

The principal accounting policies adopted in the preparation of the Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These Group consolidated financial statements have been approved for issue by the Board of Directors on 14 February 2012.

(b) Basis of measurement:

The Group consolidated financial statements have been prepared on historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments classified as held for trading and at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged;
- Liabilities for cash settled share based payments are measured at fair value; and
- Investment properties are measured at fair value.

2 BASIS OF PREPARATION (continued)

(b) Basis of measurement (continued):

These consolidated financial statements are presented in UAE Dirham ("AED"), which is the Group's functional currency. Except where indicated, financial information presented in AED has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 3 (a).

(c) Principles of consolidation

(i) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies (generally accompanying a shareholding of more than one half of the voting rights) so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

A list of the Group's subsidiary companies is shown in Note 40.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company with the exception of Emirates Financial Services PSC, an insignificant subsidiary, whose year end is 31 March and hence the Group uses their reviewed 12 months accounts as at 31 December 2011. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are 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.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(i) Subsidiaries (continued)

Basis of consolidation (continued)

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 3. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(ii) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incidental to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(ii) Special Purpose Entities (continued)

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and SPE. Day-to-day changes in the market conditions normally do not lead to a reassessment of control.

Information about the Group's securitisation activities is set out in Note 7.

(iii) Fund Management

The Group manages and administers funds on behalf of investors. The financial statements of these funds are not included in these consolidated financial statements. Information about the Group's fund management activity is set out in Note 48.

(iv) Fiduciary activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements (refer Note 49).

(v) Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to owners of the Bank.

Changes in the Group owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(vi) Jointly controlled entities Jointly controlled entities

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The consolidated financial statements include the Group's share of the total recognised gains and losses of its jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of losses exceeds the carrying amount of the investment, the investment is reported as nil and recognition of losses is discontinued except to the extent of the Group's commitment (if any).

The carrying amounts of the jointly controlled entities are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. The impairment loss is charged to income statement.

2 BASIS OF PREPARATION (continued)

(c) Principles of consolidation (continued)

(vi) Jointly controlled entities (continued

Upon loss of joint control, the Group measures any retained investment at its fair value. Any difference between the carrying amount of the former joint venture entity upon loss of joint venture control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

(vii) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% to 50% of the voting rights. An associate is an entity, not being a subsidiary or a joint venture, in which the Group has significant influence.

An associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

The Group's investments in associates are accounted for using the equity method. Under the equity method, the investment in associate is measured in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate.

The profit or loss reflects the share of the results of operations of the associates. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associates.

The Group's share of the profit or loss of its associates is shown on the face of the consolidated income statement.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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 balance sheet 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 profit or loss.

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

Upon loss of significant influence over the associate, the Group measures any retained investment at its fair value.

Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the aggregate of the retained investment and proceeds from disposal is recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Allowances for impairment of loans and receivables, Islamic financing and investment products

The Group reviews its loans and receivables portfolio, Islamic financing and investment products to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing and investment products. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually significant loans and receivables and Islamic financing and investment products, the Group also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables, Islamic financing and investment products which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the "emergence period').

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non market factors.

بنك الإمارات دبي الوطني
Emirates NBD

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Use of estimates (continued)

(iv) Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Impairment loss on investment in associates

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and also choose a suitable discount rate in order to calculate the present value of those cash flows.

(vi) Held-to-maturity investment securities

The Group follows the guidance of IAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for specific circumstances (those mentioned in Note 3(e)(i)1), it will be required to reclassify the entire class as available-for-sale and the Group will be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

(b) Revenue recognition

Interest income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

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

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Revenue recognition (continued)

Fee income is earned from a diverse range of services provided by the Group to its customers.

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'

Commission income is accounted for on an accrual basis. Dividend income is recognised when the Group's right to receive the dividend is established. Recoveries in respect of loans and receivables that have been identified as fully impaired are accounted for on a cash receipt basis.

(c) Customer loyalty programme

The Group operates a Plus points rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained.

The sale proceeds received are allocated between the products sold and the points issued, with the proceeds allocated to the points being equal to their fair value. Fair value is determined by applying statistical techniques.

The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

(d) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments

(i) Classification

- Trading securities:

Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

- Investment securities:

(1) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets, with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

Sale of HTM assets is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group's control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. All AFS financial assets are measured at fair value. The differences between cost and fair value is taken to equity and recognised as a separate component in the statement of financial position, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to equity, is transferred to the income statement.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(i) Classification (continued)

- Investment securities (continued)

(3) Designated at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- Originated loans and syndicated loans funded on origination;
- Other debt securities acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(iii) Derecognition (continued)

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending, repurchase transactions and asset-backed securitisations.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

(iv) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(vi) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(vi) Fair value measurement principles (continued)

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account the current creditworthiness of the counterparties.

(vii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

(viii) Impairment

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed loans and advances

For all loans that are considered individually significant, the Group assesses on a case-by-case basis each quarter and more frequently when circumstances require whether there is any objective evidence of impairment. The criteria used by the Group to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- decline in the realizable value of the security;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Individually assessed loans and advances (continued)

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- The Group's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- when available, the secondary market price of the debt.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:
- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the balance sheet date, which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogeneous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans that are not considered individually significant, because individual loan assessment is impracticable.

Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group. Two alternative methods are used to calculate allowances on a collective basis:

Consumer

When appropriate empirical information is available, the Group utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated. Under this methodology, loans are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Homogeneous groups of loans and advances (continued)

Corporate

Historical loss rates for different industry sectors are considered to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles are incorporated, the loss rates are benchmarked against published default histories observed over economic cycles in different markets. Industry specific adjustments are made to reflect the current market conditions. A number of stress scenarios are run to ensure that the reserves are adequate and reflect a realistic level of collective impairment provisions.

The collective impairments computed for each significant group of loans are compared against the minimum collective impairment provisioning requirements prescribed by the regulatory authorities and the higher of the two amounts is set aside for collective impairment.

In normal circumstances, historical experience provides the most objective and relevant information from which to assess inherent loss within each portfolio, though sometimes it provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, when there have been changes in economic, regulatory or behavioural conditions which result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models. In these circumstances, the risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, in full, when there is no realistic prospect of recovery. Where loans are secured, this is after receipt of any proceeds from the realisation of security, if any.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Impairment of Available for sale securities

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

The impairment methodologies for available-for-sale financial assets are set out in more detail below.

Available-for-sale debt securities

When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

(viii) Impairment (continued)

Available-for-sale equity securities

Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

– for an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;

– for an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

(f) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the reporting date, and the resulting gains and losses are taken to the Group consolidated income statement. Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to currency translation reserve.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 years
Core banking software	7 years
Motor vehicles	3 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(h) Inventory

Properties acquired in settlement of debt are held as inventory and is measured at the lower of cost or net realizable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(i) Income taxes and deferred taxation

Income tax payable on taxable profits, based on the applicable tax laws in each overseas jurisdiction where the Group operates, is recognised as an expense in the period in which such taxable profits arise.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Income taxes and deferred taxation (continued)

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

(j) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in 'Other operating income' in the year in which they arise.

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

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease of a significant portion of the property to another party or ending of construction or development. Transfers are made from investment properties when and only when there is a change in use based on the business model.

(k) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the income statement.

(iii) Employees long term incentive plan ("LTIP")

With effect from 1 April 2006, Emirates NBD has introduced two Long Term Incentive Plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

The fair value of the amount payable to employees in respect of LTI units which are settled in cash is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The amount recognised as an expense is adjusted to reflect the actual number of LTI units that vest. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff-related expense in the Group consolidated income statement.

(m) Hedging instruments

Hedging instruments include futures, forwards and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments (refer Note 3 (a) (ii)).

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Hedging instruments (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(i) Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of derivative is recognised in other comprehensive income within 'Cash flow hedges – fair value gains/(losses)'. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed 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 or the hedge designation is revoked, then hedge accounting is discontinued prospectively, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Hedging instruments (continued)

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(o) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(p) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(q) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

(r) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Islamic financing and investment products

Islamic financing and investment products are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These products are carried at amortised cost (less impairment).

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

Istissna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Islamic financing and investment products (continued)

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

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

(t) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

Acquisitions of non-controlling interest

Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Intangible assets (continued)

(i) Goodwill (continued)

Measurement

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may by impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss of disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

(ii) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years, except in case of core banking software which is 7 years.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Intangible assets (continued)

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

(u) Impairment of non financial assets

The carrying amounts of the Group's non-financial assets, other than investment properties and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(v) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders (further adjusted for interest expense on tier I capital notes) of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Assets held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be principally recovered primarily through a sale transaction that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets and liabilities are not netted. In the period where an asset or liability is recognised for the first time as held for sale, these assets and liabilities are shown separately on the face of the statement of financial position. However, the statement of financial position for the comparative prior period presented is not restated.

These assets and liabilities held for sale are measured in line with the Group's accounting policies.

(x) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,
  (i) controls, is controlled by, or is under common control with, the Group;
  (ii) has an interest in the Group that gives it significant influence over the Group; or
  (iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(y) Operating segments

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 39.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) New standards and interpretations not yet effective

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, with the Group not opting for early adoption. These have, therefore, not been applied in preparing these consolidated financial statements.

Standard	Description	Effective date (early adoption permitted)
IFRS 9 Financial Instruments	This standard, issued as a replacement to IAS 39, retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. It also includes the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities.	1 January 2015
IFRS 10 - Consolidated Financial Statements	The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. Defines the principle of control, and establishes controls as the basis for consolidation. Sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. Sets out the accounting requirements for the preparation of consolidated financial statements.	1 January 2013
IFRS 11 - Joint Arrangements	IFRS 11 relates to joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.	1 January 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) New standards and interpretations not yet effective (continued)

Standard	Description	Effective date (early adoption permitted)
IFRS 12 Disclosure of Interests in Other Entities	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2013
IFRS 13, 'Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.	1 January 2013
IAS 27 (revised 2011), 'Separate financial statements'	IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.	1 January 2013
IAS 28 (revised 2011),'Associates and joint ventures'	IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.	1 January 2013
Amendments to IFRS 7, 'Financial instruments: Disclosures' on derecognition	This amendment promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.	1 July 2011
Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.	1 July 2012
Amendment to IAS 19, 'Employee benefits'	These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.	1 January 2013

The group is assessing the impact of the above and other new standards, amendments to standards, revisions and interpretations. Based on an initial assessment, the above and other new standards, amendments to standards, revisions and interpretations have no material impact on the consolidated financial statements of the Group as at the reporting date. The impact of IFRS 9 is likely to depend on the outcome of the other phases of IASB's IAS 39 replacement project which is yet to be finalised.

4 CASH AND DEPOSITS WITH CENTRAL BANK

	2011 AED 000	2010 AED 000
Cash	1,977,954	1,539,825
Interest free statutory and special deposits with Central Bank	12,633,518	10,721,819
Interest bearing placements with Central Bank	1,214,665	1,171,300
Interest bearing certificates of deposit with Central Bank	5,700,000	24,250,000
	21,526,137	37,682,944

The reserve requirements which are kept with the Central Bank of the UAE in AED and US Dollar, are not available for use in the Group's day to day operations and cannot be withdrawn without the Central Bank of the UAE's approval. The level of reserves required changes every month in accordance with the Central Bank of the UAE's directives as per circular no. 21/99 dated 22/11/1999.

5 DUE FROM BANKS

31 December 2011	Local AED 000	Foreign AED 000	Total AED 000
Time loans	4,444,590	7,224,693	11,669,283
Overnight, call and short notice	2,592,522	5,620,787	8,213,309
Gross due from banks	7,037,112	12,845,480	19,882,592
Specific allowances for impairment	-	(31,013)	(31,013)
	7,037,112	12,814,467	19,851,579

31 December 2010	Local AED 000	Foreign AED 000	Total AED 000
Time loans	274,656	11,188,649	11,463,305
Overnight, call and short notice	54,794	2,359,858	2,414,652
Gross due from banks	329,450	13,548,507	13,877,957
Specific allowances for impairment	-	(27,490)	(27,490)
	329,450	13,521,017	13,850,467

The average yield on these placements was 1.46% p.a. (2010: 1.9% p.a.).

بنك الإمارات دبي الوطني
Emirates NBD

6 LOANS AND RECEIVABLES

(a) By type

	2011 AED 000	2010 AED 000
Overdrafts	70,128,144	68,175,059
Time loans	108,758,368	108,829,951
Loans against trust receipts	2,978,058	2,564,316
Bills discounted	2,180,705	1,110,205
Credit card receivables	3,160,323	2,473,691
Others	591,882	672,563
Gross loans and receivables	187,797,480	183,825,785
Other debt instruments	501,786	659,562
Total loans and receivables	188,299,266	184,485,347
Less: Allowances for impairment	(11,484,232)	(7,481,734)
	176,815,034	177,003,613
Total of impaired loans and receivables	**26,800,238**	**18,749,784**

Included in loans and receivables are other debt securities of AED 2,333 million (2010: AED 658 million) that have been pledged under repurchase agreements (refer Note 20).

(b) By segment

	2011 AED 000	2010 AED 000
Corporate banking	157,678,834	157,872,431
Consumer banking	17,916,655	16,403,615
Treasury	307,151	394,623
Others	912,394	2,332,944
	176,815,034	177,003,613

6 LOANS AND RECEIVABLES (continued)

Movement in allowances for specific impairment	2011 AED 000	2010 AED 000
Balance as at 1 January	5,534,739	3,735,139
Allowances for impairment made during the year	2,916,509	2,361,671
Write back/recoveries made during the year	(266,384)	(88,795)
Amount transferred to Islamic financing	(8,393)	-
Interest unwind on impaired loans	(106,952)	-
Amounts written off during the year	(14,370)	(473,276)
Exchange and other adjustments	1,643	-
Balance as at 31 December	8,056,792	5,534,739
Movement in allowances for collective impairment		
Balance as at 1 January	1,946,995	1,663,873
Allowances for impairment made during the year	1,919,845	528,122
Write back made during the year	(439,400)	(245,000)
Balance as at 31 December	3,427,440	1,946,995
Total	**11,484,232**	**7,481,734**

7 LOANS SECURITISATION

(i) Incorporation of Emirates NBD Auto Finance Limited and Emirates NBD Auto Financing Limited for asset securitisation

On 10 September 2009, Emirates NBD Auto Finance Limited ("APC") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to purchase portfolios of loans through the issuance of notes.

On 10 September 2009, Emirates NBD Auto Financing Limited ("Repack") was incorporated under the Companies (Jersey) Law, 1991 and registered in Jersey as a limited company. The principal activity of the Company is to invest in notes and securities through the issuance of notes.

On 10 August 2010, the Group transferred retail auto loans and receivables amounting to AED 968.5 million to APC (as at 31 December 2010). However, the Group has retained the credit risk associated with the transferred assets. Due to retention of the risks and rewards of the transferred assets, the Group continues to recognize these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 857 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost. Since the Group is exposed to a majority of ownership risks and rewards of these special purpose entities (SPE), these SPEs are consolidated in compliance with SIC Interpretation 12 – Consolidation – special purpose entities.

As at 31 December 2011, the auto loans and receivables balance transferred to APC is AED 970.8 million and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 907 million.

(ii) Consolidation of the Group's Tranche of Emblem Finance Company No. 2 Limited (multi-seller SPE) for asset securitisation

On 22 November 2010, the Group transferred corporate loans and receivables amounting to AED 2,193 million (as at 31 December 2010) to Emblem Finance Company No. 2 Limited (multi-seller SPE). However, the Group has retained substantially all of the credit risk & rewards associated with the transferred assets and hence the Group continues to recognize these assets within loans and receivables and the transfers are accounted for as secured financing transactions. The associated liability of AED 2,193 million, secured by these assets, is included under debt issued and other borrowed funds and is carried at amortised cost.

Since the Group is exposed to a majority of ownership risks and rewards of this section of the multi seller SPE, the Group's tranche in the SPE is consolidated in compliance with SIC Interpretation 12 – Consolidation – special purpose entities.

As at 31 December 2011, the corporate loans and receivables balance transferred to Emblem Finance Company No. 2 Limited is AED 881 million and the associated liability secured by these assets and included under debt issued and other borrowed funds is AED 880 million.

8 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2011 AED 000	2010 AED 000
Murabaha	11,645,843	5,768,256
Ijara	8,146,868	6,407,413
Sukuk funds	1,285,550	1,285,550
Credit card receivables	739,701	531,474
Wakala	4,229,574	3,837,714
Istissna'a	1,087,428	1,570,624
Others	1,390,749	1,352,959
Total Islamic financing and investment products	28,525,713	20,753,990
Less: Deferred income	(787,648)	(693,752)
Less: Allowances for impairment	(1,412,786)	(840,326)
	26,325,279	19,219,912
Total of impaired Islamic financing and investment products	2,913,630	1,675,025

Movement in allowances for specific impairment	2011 AED 000	2010 AED 000
Balance as at 1 January	594,685	355,254
Allowances for impairment made during the year	525,853	268,532
Recoveries made during the year	(40,540)	(29,101)
Amount transferred from loans and receivables	8,393	-
Amounts written off during the year	(98)	-
Balance as at 31 December	1,088,293	594,685
Movement in allowances for collective impairment		
Balance as at 1 January	245,641	194,048
Allowances for impairment made during the year	111,068	67,412
Write back made during the year	(32,216)	(15,819)
Balance as at 31 December	324,493	245,641
Total	1,412,786	840,326

9 TRADING SECURITIES

31 December 2011	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	49,991	-	-	49,991
Corporate bonds	97,576	-	-	97,576
Equity	91,534	-	-	91,534
Others	349,578	-	-	349,578
	588,679	-	-	588,679

31 December 2010	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Government bonds	187,101	-	-	187,101
Corporate bonds	772,424	46,273	186,762	1,005,459
Equity	114,035	12,177	11,135	137,347
	1,073,560	58,450	197,897	1,329,907

Reclassifications out of trading securities

In 2008, pursuant to the amendments to IAS 39 and IFRS 7, the Group reclassified certain trading securities to available-for-sale investment securities. The Group identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. The Group determined that the context of the deterioration of the financial markets during the second half of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. In addition, some trading securities purchased after 1 July 2008 were subsequently identified for reclassification. The table below sets out the trading securities reclassified and their carrying and fair values.

	1 July 2008 AED 000		31 December 2010 AED 000		31 December 2011 AED 000	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale investment securities	993,491	993,491	378,518	378,518	393,384	393,384
	993,491	993,491	378,518	378,518	393,384	393,384

9 TRADING SECURITIES (continued)

The table below sets out the amounts recognised in the income statement and equity during 2011 in respect of financial assets reclassified out of trading securities into available-for-sale investment securities:

	Income statement AED 000	Equity AED 000
Period before reclassification (30 June 2008)		
Net trading loss	(16,661)	-
	(16,661)	-
Period after reclassification (1 July 2008 – 31 December 2011)		
Interest income	95,000	-
Net change in fair value	-	(8,496)
	95,000	(8,496)

The table below sets out the amounts that would have been recognised in the year described if the aforementioned reclassifications had not been made:

	2011 AED 000
Net trading profit	30,829

بنك الإمارات دبي الوطني
Emirates NBD

10 INVESTMENT SECURITIES

31 December 2011	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	55,095	115,353	-	170,448
Corporate bonds	-	117,665	70,998	188,663
	55,095	233,018	70,998	359,111
AVAILABLE-FOR-SALE:				
Government bonds	1,293,547	1,367,001	867,782	3,528,330
Corporate bonds	5,273,967	1,240,831	1,403,836	7,918,634
Equity	492,315	1,170,547	450,348	2,113,210
Others	240,608	811,945	469,250	1,521,803
	7,300,437	4,590,324	3,191,216	15,081,977
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	85,897	79,010	-	164,907
Others	188,143	2,377	87,212	277,732
	274,040	81,387	87,212	442,639
	7,629,572	4,904,729	3,349,426	15,883,727

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

10 INVESTMENT SECURITIES (continued)

31 December 2010	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	55,095	114,389	-	169,484
Corporate bonds	18,365	165,135	34,643	218,143
	73,460	279,524	34,643	387,627
AVAILABLE-FOR-SALE:				
Government bonds	1,121,929	841,548	701,662	2,665,139
Corporate bonds	3,320,158	793,017	2,441,473	6,554,648
Equity	509,208	848,785	847,576	2,205,569
Others	228,836	297,528	970,288	1,496,652
	5,180,131	2,780,878	4,960,999	12,922,008
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Equity	47,974	98,845	-	146,819
Others	765,372	2,377	141,600	909,349
	813,346	101,222	141,600	1,056,168
	6,066,937	3,161,624	5,137,242	14,365,803

Included in available-for-sale investment securities is an amount of AED 187 million (2010: AED 234 million), pledged under repurchase agreements with banks refer Note 20.

Investment securities include investments in real estate funds as follows:

	2011 AED 000	2010 AED 000
Designated at fair value through profit or loss	13,831	204,599
Available-for-sale	952,655	982,429
	966,486	1,187,028

بنك الإمارات دبي الوطني
Emirates NBD

Fair value of the consideration AED 10
==========

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

11 INVESTMENT IN / SALE OF SUBSIDIARIES

(i) TANFEETH

On 7 July 2011, Tanfeeth L.L.C. was incorporated as a fully owned subsidiary of the Group. The primary objective of the entity is to provide a platform to the Group's various back office operations with an objective to enhance the service delivery capability and achieve efficiencies.

(ii) ACQUISITION OF DUBAI BANK P.J.S.C

As per the decree issued by the Ruler of Dubai on 11 October 2011, the Group acquired 100% stake in Dubai Bank PJSC ("Dubai Bank"), a provider of Shariah compliant banking services in the UAE.

The fair value of the assets acquired is given below.

Net assets acquired	**Fair Value AED million**
Cash and deposits with Central Bank	1,348
Due from banks	1,367
Islamic financing and investment products	8,225
Investment securities	368
Investments in associates	19
Property and equipment	143
Other assets	524
Liabilities	
Customer deposits	(12,505)
Due to banks and other financial institutions	(184)
Other liabilities	(616)
Fair value of the net assets	(1,311)
Fair value of the deposit from Ministry of Finance of the UAE (a)	543
Fair value of the Guarantee from the Government of Dubai (b)	768
	-

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

11 INVESTMENT IN / SALE OF SUBSIDIARIES (continued)

(ii) ACQUISITION OF DUBAI BANK P.J.S.C (continued)

(a) Fair value of the deposit from Ministry of Finance of the UAE

In connection with the transaction, the Group has received a deposit from Ministry of Finance of the UAE amounting to AED 2.8 billion at a discount compared to the market available interest rate. As per the Group policy, the financial liability should be recognised initially at its fair value plus the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Since the above deposit was received at an interest rate which is below the market available interest rate, a fair value gain of AED 543 million has been recognised in these financial statements, which will be amortised over the term of the deposit (8 years) at the effective interest rate.

(b) Fair value of the Guarantee from the Government of Dubai

In connection with the transaction, the Government of Dubai has provided a guarantee for any losses at the date of the acquisition and any future losses relating to the assets and liabilities that existed on the date of acquisition for the next 7 years. An amount of AED 768 million represents the fair value of the Guarantee as at the date of the acquisition.

The fair value of the assets and liabilities was determined by an external expert through an estimate of the future cash flows of these assets and liabilities using the market based discount rates.

Acquisition-related costs included in general and administrative expenses in the income statement for the year ended 31 December 2011 is AED 1.2 million.

(iii) SALE OF PARTIAL STAKE IN SUBSIDIARY

On 31 March 2011, the Group completed the sale of 49% shareholding in Network International L.L.C, a subsidiary of the Group, for a net consideration of AED 1,366 million. The gross assets and liabilities of Network International L.L.C were earlier disclosed as held for sale as at 31 December 2010 under IFRS 5 – Non-current assets held for sale and discontinued operations following the signing of the share purchase agreement with a strategic investor.

The consideration for the sale has been part financed in cash and part by a term loan of AED 707 million from the Group to the purchaser. The sale transaction gave rise to a net gain on disposal of AED 957 million.

The term loan of AED 707 million has been discounted at the cost of equity of Emirates NBD group as at 31 December 2010, resulting in an un-amortised gain which will be recognised in the income statement over the tenor of the loan (5 years).

11 INVESTMENT IN / SALE OF SUBSIDIARIES (continued)

(iii) SALE OF PARTIAL STAKE IN SUBSIDIARY (continued)

	AED million
Net consideration received	1,366
Carrying value of share of net assets on date of disposal	(409)
Realised gain on disposal of 49% shareholding in subsidiary	957

The fair value of the retained stake of 51% in Network International LLC was estimated at AED 1,282 million as of 31 March 2011. The fair value gain on measurement of the retained shareholding was AED 856 million which has been recognised in the income statement.

12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2011 AED 000	2010 AED 000
Investments in associates	678,175	1,411,687
Investments in joint ventures	1,363,284	-
Total	2,041,459	1,411,687

Movement in investments in associates:

Movements in the carrying values of investments in associates during the year are as follows:

	2011 AED 000	2010 AED 000
Balance as at 1 January	1,411,687	2,441,993
Addition on acquisition	15,744	-
Share of loss	(59,490)	(664,410)
Impairment made during the year	(676,000)	(360,000)
Dividends	(13,766)	(5,896)
Balance as at 31 December	678,175	1,411,687

12 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investment in associates mainly relate to Union Properties ("UP"). Management undertook an impairment assessment following the underperformance of this investment during the year, which resulted in an impairment of the Group's cost of investment in UP amounting to AED 676 million, being the difference in carry amount and the recoverable amount using the value in use method. The value in use calculations were based on the discounted cash flow model. The cash flows were derived from the forecast for the next ten years. The recoverable amount is sensitive to estimates and assumptions on expected sales volume and future sale prices, expected future costs and expenses, weighted average cost of capital as well as terminal growth rates. Actual outcomes could differ from these estimates and assumptions. The carrying amount of the Group's investment in UP as at 31 December 2011 was AED 532 million (2010: AED 1,282 million).

Aggregated financial information of the material associates and joint ventures is assets of AED 13,127 million (2010: AED 16,068 million), liabilities of AED 10,212 million (2010: AED 11,608 million), revenue of AED 5,788 million (2010: AED 3,008 million) and loss of AED 1,428 million (2010: AED 1,321 million). At the Board approval date, equity accounting was applied using management information available at the time. Subsequent changes are not considered material.

Joint ventures:

As referred to in Note 11, post completion of the sale transaction, Network International L.L.C, is now subject to joint management control as per the terms of the sale agreement.

Movement in investments in joint ventures:

Movements in the carrying values of investments in joint ventures during the year are as follows:

	2011 AED 000	2010 AED 000
Balance as at 1 January	-	2,557
Investment in joint venture	1,281,786	-
Share of profits	81,498	80
Less: assets held for sale	-	(2,637)
Balance as at 31 December	1,363,284	-

Apart from the above, there were no other significant changes to investments in associates and joint ventures during the period.

13 INVESTMENT PROPERTIES

The movement in investment properties during the year is as follows:

	2011 AED 000	2010 AED 000
Balance as at 1 January	1,907,291	1,707,611
Additions	22,716	427,767
Transfer to fixed assets not commissioned	-	(600)
Sale of investment properties	(1,118)	(11,513)
Fair value revaluation loss	(288,799)	(215,974)
Transfer to inventories*	(409,174)	-
Transfer to property and equipment**	(100,000)	-
Balance as at 31 December	1,130,916	1,907,291

* During the year, the Group transferred properties amounting to AED 409 million from investment properties to inventory. As a result the Group will record these properties at lower of cost or net realizable value.

** Represents land transferred from investment properties to property and equipment as the associated construction cost is included in fixed assets not commissioned under property and equipment.

Investment properties comprises of freehold land and buildings. Rental income from investment properties recorded in other income is AED 19.3 million (2010: AED 19.2 million).

14 PROPERTY AND EQUIPMENT

	Freehold land and property AED 000	Leasehold premises and improvements AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2011	1,095,560	328,438	931,135	799,157	3,154,290
Additions	40,334	76,351	141,748	208,683	467,116
Transfers	796,980	36,327	9,893	(743,200)	100,000
Disposals	(21)	(34,940)	(19,179)	(4,414)	(58,554)
As at 31 December 2011	1,932,853	406,176	1,063,597	260,226	3,662,852
ACCUMULATED DEPRECIATION					
As at 1 January 2011	199,981	168,151	449,298	-	817,430
Charge for the year	78,335	44,648	166,517	-	289,500
Disposals	-	(17,167)	(12,022)	-	(29,189)
Impairment	8,121	-	-	-	8,121
As at 31 December 2011	286,437	195,632	603,793	-	1,085,862
Net book value as at 31 December 2011	1,646,416	210,544	459,804	260,226	2,576,990

14 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property AED 000	Leasehold premises and improvements AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2010	1,048,376	280,018	1,090,432	707,388	3,126,214
Additions	53,577	33,423	167,621	258,581	513,202
Transfers	4,381	29,707	107,921	(142,009)	-
Disposals	(4,243)	(7,069)	(148,889)	(12,594)	(172,795)
Transfers to assets held for sale	(6,531)	(7,641)	(285,950)	(12,209)	(312,331)
As at 31 December 2010	1,095,560	328,438	931,135	799,157	3,154,290
ACCUMULATED DEPRECIATION					
As at 1 January 2010	156,560	131,097	537,442	-	825,099
Charge for the year	43,421	44,798	183,044	-	271,263
Disposals	-	(5,193)	(143,993)	-	(149,186)
Transfers to assets held for sale	-	(2,551)	(127,195)	-	(129,746)
As at 31 December 2010	199,981	168,151	449,298	-	817,430
Net book value as at 31 December 2010	895,579	160,287	481,837	799,157	2,336,860

Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not ready for use.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

15 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles			Total
31 December 2011	AED 000	Software AED 000	Customer relationships AED 000	Core deposit intangibles AED 000	AED 000
Cost					
Balance as at 1 January	5,500,845	9,281	157,490	564,760	6,232,376
	5,500,845	9,281	157,490	564,760	6,232,376
Amortisation and impairment					
Balance as at 1 January	4,903	7,595	100,000	195,000	307,498
Amortisation and impairment for the year	-	1,686	31,174	61,000	93,860
Balance as at 31 December	4,903	9,281	131,174	256,000	401,358
NET	5,495,942	-	26,316	308,760	5,831,018
31 December 2010					
Cost	5,500,845	9,281	157,490	564,760	6,232,376
Amortisation and impairment	4,903	7,595	100,000	195,000	307,498
NET	5,495,942	1,686	57,490	369,760	5,924,878

Impairment testing of goodwill

The goodwill acquired through business combinations with indefinite life is reviewed annually for impairment by comparing the recoverable amount based on value-in-use calculations for cash generating units (CGUs) to which goodwill has been allocated with its carrying value.

The goodwill has been allocated to three individual cash-generating units, which are also reportable segments as follows:

- Corporate banking
- Consumer banking
- Treasury

بنك الإمارات دبي الوطني
Emirates NBD

15 GOODWILL AND INTANGIBLES (continued)

Key assumptions used in impairment testing for significant goodwill

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period.

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the projection period;
- Projected growth rates used to extrapolate cash flows beyond the projection period;
- Current local Gross Domestic Product ("GDP"); and
- Local inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed ("ROCE") required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital ("WACC").

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

At 31 December 2011, the goodwill allocated to Corporate Banking was AED 3,589 million (2010: AED 3,589 million), the goodwill allocated to Consumer Banking was AED 1,700 million (2010: AED 1,700 million) and the goodwill allocated to Treasury was AED 206 million (2010: AED 206 million).

Corporate Banking

The recoverable amount of Corporate Banking goodwill, determined on the basis of value in use calculation uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 16.9%. The recoverable amount exceeded the carrying amount by AED 14,765 million. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 1,193 million and AED 612 million respectively.

Consumer Banking

The recoverable amount of Consumer Banking goodwill, determined on the basis of value in use calculation uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 16.9%. The recoverable amount exceeded the carrying amount by AED 16,258 million. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 1,167 million and AED 598 million respectively.

15 GOODWILL AND INTANGIBLES (continued)

Treasury

The recoverable amount of Treasury goodwill, is determined on the basis of value in use calculation uses cash flow projections covering a five year period, with a terminal growth rate of 2% applied thereafter. The forecast cash flows have been discounted at a rate of 16.9%. The recoverable amount exceeded the carrying amount by AED 4,794 million. A one percentage point change in the discount rate or the terminal growth rate would reduce the recoverable amount by AED 325 million and AED 167 million respectively.

Intangibles:

Acquired intangibles are recognised at their "fair value" upon initial recognition. "Fair value" is defined as 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction'.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 5 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

16 OTHER ASSETS

	2011 AED 000	**2010 AED 000**
Accrued interest receivable	1,377,940	1,210,117
Prepayments and other advances	246,999	278,198
Sundry debtors and other receivables	534,854	496,005
Inventory*	1,433,417	-
Fair value of deposit (refer Note 11)	542,910	-
Fair value of guarantee (refer Note 11)	768,114	-
Others	961,701	1,154,444
	5,865,935	3,138,764

* Included in inventory is AED 409 million pertaining to transfer from Investment properties.

17 DUE TO BANKS

	2011 AED 000	2010 AED 000
Demand and call deposits	2,902,848	3,426,843
Balances with correspondent banks	2,136,992	1,016,882
Time and other deposits	21,065,393	14,413,000
	26,105,233	18,856,725

The interest rates paid on the above averaged 1.3% p.a. (2010: 1.7% p.a.).

18 CUSTOMER DEPOSITS

(a) By type

	2011 AED 000	2010 AED 000
Demand, call and short notice	57,991,685	47,201,271
Time	84,003,998	102,648,573
Savings	10,669,783	8,726,815
Others	1,347,941	1,295,943
	154,013,407	159,872,602

(b) By segment

	2011 AED 000	2010 AED 000
Corporate banking	68,254,373	83,547,373
Consumer banking	68,753,306	62,745,187
Treasury	5,503,385	2,077,699
Others	11,502,343	11,502,343
	154,013,407	159,872,602

The interest rates paid on the above deposits averaged 1.8% p.a. in 2011 (2010: 2.3% p.a.).

Customer deposits include AED 11,502 million (2010: AED 11,502 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2008.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

19 ISLAMIC CUSTOMER DEPOSITS

(a) By type

	2011 AED 000	2010 AED 000
Demand, call and short notice	7,085,962	3,809,325
Time	28,889,291	34,803,842
Savings	3,176,557	1,377,822
Others	148,836	108,417
	39,300,646	40,099,406

(b) By segment

	2011 AED 000	2010 AED 000
Corporate banking	29,037,104	31,230,889
Consumer banking	8,124,777	7,786,283
Treasury	1,056,893	362
Others	1,081,872	1,081,872
	39,300,646	40,099,406

Islamic customer deposits include AED 1,082 million (2010: AED 1,082 million) pertaining to facilities received from the Ministry of Finance of the UAE in December 2008.

20 REPURCHASE AGREEMENTS WITH BANKS

Deposits under repurchase agreements represent borrowings from banks and are secured by a portfolio of investment securities and loans and receivables as follows:

	2011 AED 000	2010 AED 000
Available-for-sale investment securities	186,805	233,827
Loans and receivables	2,332,855	658,482
	2,519,660	892,309

21 DEBT ISSUED AND OTHER BORROWED FUNDS

	2011 AED 000	2010 AED 000
Medium term note programme	8,340,640	10,856,743
Syndicated borrowings from banks	5,508,750	5,508,750
Borrowings raised from loan securitisations (refer Note 7)	1,787,477	3,050,316
	15,636,867	19,415,809

The Group has outstanding medium term borrowings totalling AED 15,637 million (2010: AED 19,416 million) which will be repaid as follows:

	2011 AED million	2010 AED million
2011	-	3,799
2012	8,465	8,051
2013	1,972	1,036
2014	231	244
2015	880	2,193
2016	618	1,892
2018	2,564	1,344
2020	907	857
	15,637	19,416

The interest rate paid on the above averaged 1.6 % p.a. in 2011 (2010: 1.6 % p.a.).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

21 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

The medium term note programme includes subordinated notes issued with the following terms and conditions:

	2011 AED million	2010 AED million
US$500 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2016	320	1,273
US$500 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2016	298	619
AED 1,000 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2018	903	904
AED 440 million 10 yr lower tier II floating rate subordinated notes, non-call 5 yr and due 2018	440	440
	1,961	3,236

The above liabilities will, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

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

22 OTHER LIABILITIES

	2011 AED 000	2010 AED 000
Accrued interest payable	739,211	1,119,115
Profit payable to Islamic depositors	204,572	327,050
Managers' cheques	563,569	631,076
Trade and other payables	1,044,319	726,975
Staff related liabilities	761,679	667,222
Provision for taxation (refer Note 35)	8,346	11,791
Others	1,649,112	1,355,596
	4,970,808	4,838,825

بنك الإمارات دبي الوطني
Emirates NBD

23 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

Authorised, issued and fully paid: 5,557,774,724 ordinary shares of AED 1 each (2010: 5,557,774,724 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
As at 1 January 2010	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2010	5,557,774,724	5,557,775	12,270,124
As at 1 January 2011	5,557,774,724	5,557,775	12,270,124
Issue of bonus shares	-	-	-
As at 31 December 2011	5,557,774,724	5,557,775	12,270,124

At the forthcoming Annual General Meeting which will be held on 25 March 2012, the Group is proposing a cash dividend of AED 0.20 per share for the year (2010: AED 0.20 per share) amounting to AED 1,112 million (2010: AED 1,112 million).

24 TIER I CAPITAL NOTES

In June 2009, the Group issued regulatory tier I capital notes amounting to AED 4 billion. The notes are perpetual, subordinated, unsecured and have been issued at a fixed interest rate for the first five years and on a floating rate basis thereafter. The Bank can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and the event is not considered an event of default. The notes carry no maturity date and have been classified under equity.

25 RESERVES

Legal and statutory reserves

In accordance with the Bank's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. A transfer of AED 253.2 million (2010: AED 234 million) has been made to the legal reserve in compliance with the provisions of the Bank's Articles of Association. 10% of the profit is also transferred to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2011	2,198,205	555,800	2,313,733	5,067,738
Transfer from retained earnings	253,200	-	-	253,200
At 31 December 2011	2,451,405	555,800	2,313,733	5,320,938

Prior year comparatives are shown in the statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of available-for-sale financial assets and the net effective portion of changes in fair value of cash flow hedges.

Currency translation reserve

Currency translation reserve represents the exchange differences arising from retranslating the opening net investment in foreign operations.

26 NET INTEREST INCOME

	2011 AED 000	2010 AED 000
Interest income		
Loans and receivables to customers	9,240,194	10,475,653
Loans and receivables to banks	367,852	218,549
Other debt securities	2,496	11,898
Available-for-sale investment securities	294,688	257,596
Held to maturity investment securities	17,427	4,641
Trading securities and designated at fair value through profit or loss investment securities	30,659	52,298
Others	329,914	267,803
Total interest income	**10,283,230**	**11,288,438**
Interest expense		
Deposits from customers	(2,474,565)	(4,551,929)
Borrowings from banks and financial institutions	(641,146)	(333,850)
Borrowings under commercial paper	-	(2,464)
Securities lent and repurchase agreements	(20,170)	(17,424)
Others	(432,337)	(17,257)
Total interest expense	**(3,568,218)**	**(4,922,924)**
Net interest income	**6,715,012**	**6,365,514**

Included in interest income for the year 31 December 2011 is a total of AED 343 million (2010: AED 122 million) accrued on impaired financial assets.

27 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2011 AED 000	2010 AED 000
Murabaha	371,889	323,780
Ijara	512,979	563,443
Istissna'a	20,999	50,444
Sukuk funds	51,584	51,740
Wakala	113,899	134,518
Others	210,215	254,386
	1,281,565	1,378,311

28 DISTRIBUTION TO DEPOSITORS AND PROFIT PAID TO SUKUK HOLDERS

	2011 AED 000	2010 AED 000
Distribution to depositors	730,347	940,645
Profit paid to sukuk holders	7,971	8,316
	738,318	948,961

Distribution to depositors represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Fatwa and Sharia'a Supervisory Board of the Islamic banking subsidiaries.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

29 NET FEE AND COMMISSION INCOME

	2011 AED 000	2010 AED 000
Fee and commission income (refer Note (a))	1,858,706	2,447,247
Brokerage fees	10,084	19,121
Portfolio and other management fees	132,074	129,827
Total fee and commission income	2,000,864	2,596,195
Fee and commission expense	(163,743)	(757,120)
	1,837,121	1,839,075

(a) Fee and commission income includes:	2011 AED 000	2010 AED 000
Commission on trade finance products / services	579,461	529,369
Fee income	1,279,245	1,155,523
Commission on card related acquiring business	-	762,355
	1,858,706	2,447,247

30 NET (LOSS) / GAIN ON TRADING SECURITIES

	2011 AED 000	2010 AED 000
Realised (loss) / gain on trading securities	(29,584)	19,477
Unrealised (loss) / gain on trading securities	(110,051)	33,415
	(139,635)	52,892

31 OTHER OPERATING INCOME

	2011 AED 000	2010 AED 000
Dividend income	87,762	87,065
Gains from sale of available-for-sale investment securities	163,350	266,154
Loss from sale of other debt securities	-	(1,151)
Gain/loss from investment securities designated at fair value through profit or loss	15,083	(48,567)
Rental income	38,846	26,464
Realized / revaluation gain/(loss) on investment properties	(288,799)	(214,384)
Gain on interest rate instruments	231,076	73,340
Foreign exchange income*	527,884	707,709
Other income	199,155	138,026
	974,357	1,034,656

* Foreign exchange income comprises of trading and translation gain and gain on dealings with customers.

32 GENERAL AND ADMINISTRATIVE EXPENSES

	2011 AED 000	2010 AED 000
Staff cost	2,253,521	1,949,479
Occupancy cost	273,811	279,885
Depreciation	289,500	271,263
Other general and administrative expenses	690,902	552,662
	3,507,734	3,053,289

33 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2011 AED 000	2010 AED 000
Net impairment of loans and receivables (refer Note 6)	(4,130,570)	(2,555,998)
Net impairment of Islamic financing and investment products (refer Note 8)	(564,165)	(291,024)
Net impairment of investment securities	(221,514)	(285,587)
Net impairment of due from banks	(3,523)	21,657
Net special asset recoveries	2,902	-
Bad debt written off	(52,973)	(79,015)
	(4,969,843)	(3,189,967)

34 DIRECTORS' FEES

This comprises of fees payable to the directors of the Group of AED 17.6 million (2010: AED 21.8 million). The 2011 figure includes fees payable to the directors of subsidiaries of AED 6.3 million (2010: AED 11.1 million).

35 TAXATION

At 31 December 2011 provisions for tax payable on overseas branch operations amount to AED 8.3 million (2010: AED 11.8 million) (refer Note 22).

36 EARNINGS PER SHARE

The basic earnings per share of AED 0.41 (2010: AED 0.37) is based on the profit, attributable to equity holders, of AED 2,531 million (further adjusted for interest on tier I capital notes amounting to AED 262 million), for the year ended 31 December 2011 (2010: AED 2,339 million (further adjusted for interest on tier I capital notes amounting to AED 262 million), divided by 5,557,774,724 shares outstanding as at the reporting date.

37 DERIVATIVES

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

31 December 2011 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	173,497	(173,028)	68,147,954	25,886,817	40,757,713	1,467,242	36,182	-
Foreign exchange options	152,578	(150,006)	5,243,885	1,001,868	4,093,281	148,736	-	-
Interest rate swaps/caps	1,782,058	(1,684,846)	67,823,843	2,271,216	14,269,903	24,998,757	11,374,610	14,909,357
Credit derivatives	13,502	(42,456)	4,504,028	1,361,835	2,617,758	475,541	48,894	-
Equity Options	191,475	-	269,033	258,750	-	10,283	-	-
	2,313,110	(2,050,336)	145,988,743	30,780,486	61,738,655	27,100,559	11,459,686	14,909,357
Derivatives held as cash flow hedges:								
Interest rate swaps	85,764	(5,870)	4,772,605	1,836,250	186,355	800,000	1,950,000	-
Derivatives held as fair value hedges:								
Interest rate swaps	-	(12,565)	84,975	-	-	-	84,975	-
Total	2,398,874	(2,068,771)	150,846,323	32,616,736	61,925,010	27,900,559	13,494,661	14,909,357

37 DERIVATIVES (continued)

31 December 2010 notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	206,813	(115,067)	76,074,751	41,124,903	32,317,035	2,564,720	68,093	-
Foreign exchange options	95,134	(95,131)	6,250,176	2,047,000	4,203,176	-	-	-
Interest rate swaps/caps	1,647,624	(1,429,368)	50,949,640	1,667,530	10,644,326	12,797,564	13,743,990	12,096,230
Credit derivatives	23,341	(129,365)	5,669,238	146,900	1,131,130	4,250,184	141,024	-
Equity Options	162,090	(104)	260,094	1,344	258,750	-	-	-
	2,135,002	(1,769,035)	139,203,899	44,987,677	48,554,417	19,612,468	13,953,107	12,096,230
Derivatives held as cash flow hedges:								
Interest rate swaps	310,557	(192,730)	15,873,741	399,550	3,539,696	2,078,660	9,304,960	550,875
Derivatives held as fair value hedges:								
Interest rate swaps	-	(7,581)	79,079	-	-	-	-	79,079
Total	2,445,559	(1,969,346)	155,156,719	45,387,227	52,094,113	21,691,128	23,258,067	12,726,184

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

37 DERIVATIVES (continued)

Derivative product types

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

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

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and balance sheet hedging. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits and medium term borrowings. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

38 EMPLOYEES' LONG TERM INCENTIVE SCHEME

On 1 April 2006, the Group had introduced two long term incentive plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

38 EMPLOYEES' LONG TERM INCENTIVE SCHEME (continued)

(i) Key employee long term incentive plan (LTIP)

This plan is applicable for selected key employees of Emirates NBD and the LTI units will vest over a period of three years from date of grant. Subject to continued employment with Emirates NBD, 30% of the LTI units can be cashed after two years and the remaining 70% after three years up to the fifth anniversary from the date of grant.

(ii) Executive long term incentive plan (ELTIP)

This plan is applicable for selected senior executives of Emirates NBD who are granted LTI units and performance units. Subject to continued employment with Emirates NBD, the LTI units will vest at the end of three years from date of grant. Performance units will vest based on the pre-defined performance of Emirates NBD during the three year period and will range from 50% to 150% of the units granted. LTI units and performance units can be cashed within a period of two years from the vesting date.

IFRS 2 "Share Based Payments" is applied in accounting for the LTI units granted. The expense of these plans is measured based on the fair value of the equity shares, the term, the risk free interest rate and the expected number of employees who will exercise the option rights using the Black Scholes pricing model. The fair valuation of the plan is carried out at each reporting date and is expensed on a straight line basis over the vesting period.

The fair value charge for the year ended 31 December 2011 was AED Nil million (2010: AED 0.4 million) for LTIP and AED Nil million (2010: AED 2.4 million) for ELTIP. Included in other liabilities is an amount of AED 5 million (2010: AED 6.7 million) pertaining to these long term incentive plans.

	LTIP	ELTIP
LTI outstanding as at 1 January 2011	1,122,248	-
LTI units forfeited/lapsed during the year	(32,588)	-
LTI units vested during the year	(292,463)	-
LTI units outstanding as at 31 December 2011	797,197	-

39 OPERATING SEGMENTS

The Group is organised into the following main businesses:

(a) Corporate banking represents structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for government, corporate and commercial customers.

(b) Consumer banking represents retail loans and deposits, private banking and wealth management, consumer financing, card services and call center operations.

(c) Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations.

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiaries.

(e) Other operations of the Group include investment banking, asset management, equity broking services, property management, overseas branches, operations and support functions.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

39 OPERATING SEGMENTS (continued)

31 December 2011	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Emirates Islamic Bank AED 000	Dubai Bank AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,498,726	2,910,239	(3,284)	649,848	16,927	185,803	7,258,259
Net fee, commission and other income	1,080,889	999,933	681,678	(85,715)	14,192	(19,134)	2,671,843
Total operating income	4,579,615	3,910,172	678,394	564,133	31,119	166,669	9,930,102
General and administrative expenses	(317,697)	(1,458,606)	(76,179)	(430,035)	(93,013)	(1,132,204)	(3,507,734)
Net specific impairment loss on financial assets	(2,327,834)	(463,457)	(106,715)	(481,494)	(2,401)	(28,645)	(3,410,546)
Net collective impairment loss on financial assets	(1,695,209)	211,247	-	(102,140)	26,805	-	(1,559,297)
Net impairment allowance on non-financial assets	-	-	-	-	-	(8,121)	(8,121)
Amortisation of intangibles	-	-	-	-	-	(93,860)	(93,860)
Impairment and share of profit/(loss) of associates and joint ventures	-	-	-	-	2,426	(656,418)	(653,992)
Gain on disposal of 49% stake in subsidiary and fair value gain on retained interest in joint venture	-	-	-	-	-	1,812,798	1,812,798
Taxation charge	(5,980)	(12,808)	(1,215)	-		(5,864)	(25,867)
Group profit for the year	232,895	2,186,548	494,285	(449,536)	(35,064)	54,355	2,483,483
Segment assets	180,271,730	29,382,599	33,272,516	19,195,811	10,415,826	12,074,904	284,613,386
Segment liabilities and equity	80,755,387	81,532,569	54,008,595	22,732,942	10,585,251	34,998,642	284,613,386

Operating segments for 2011, does not include cards processing following the sale of stake in Network International (refer Note no.11).

39 OPERATING SEGMENTS (continued)

31 December 2010	Corporate banking AED 000	Consumer banking AED 000	Treasury AED 000	Emirates Islamic Bank AED 000	Cards processing AED 000	Others AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	3,274,001	2,381,869	77,858	705,905	9,211	346,020	6,794,864
Net fee, commission and other income	1,126,104	940,277	623,234	60,750	363,149	(186,891)	2,926,623
Total operating income	4,400,105	3,322,146	701,092	766,655	372,360	159,129	9,721,487
General and administrative expenses	(343,026)	(1,163,452)	(66,495)	(367,594)	(182,151)	(930,571)	(3,053,289)
Net specific impairment loss on financial assets	(1,444,104)	(903,422)	(139,285)	(343,444)	-	(24,996)	(2,855,251)
Net collective impairment loss on financial assets	(523,000)	240,524	-	(47,800)	-	(4,440)	(334,716)
Amortisation of intangibles	-	-	-	-	-	(93,860)	(93,860)
Impairment and share of profit/(loss) of associates and joint ventures	-	-	-	-	80	(1,024,410)	(1,024,330)
Taxation charge	-	(4,026)	-	-	(1,231)	(15,601)	(20,858)
Group profit for the year	2,089,975	1,491,770	495,312	7,817	189,058	(1,934,749)	2,339,183
Segment assets	178,441,065	27,482,260	51,674,825	21,623,089	827,826	6,029,259	286,078,324
Segment liabilities and equity	99,781,977	71,886,439	49,129,469	31,102,509	483,717	33,694,213	286,078,324

*As at 31 December 2010, total assets and liabilities amounting to AED 5,127 million pertaining to Saudi Arabia branch is included in the "Others" operating segment. The Group adopted segmental reporting for the international branches in 2011 whereby the segment assets and liabilities of the overseas branches have been reclassified from "Others" to the respective operating segments.

40 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The principal direct subsidiaries, associates and joint ventures of the Group are as follows:

As at 31 December 2011

	Group % Share-holding	Nature of business	Country of incorporation
Subsidiaries:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.
Dubai Bank PJSC	100	Islamic Banking	Dubai, U.A.E.
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, U.K.
Emirates Loyalty Company LLC (under liquidation)	100	Customer loyalty and smart card services	Dubai, U.A.E.
Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands, U.K.
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates NBD Asset Management Limited (registered in Dubai International Financial Centre)	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey, U.K.
Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.
Associates:			
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Union Properties PJSC	47.6	Real estate	Dubai, U.A.E.
Joint ventures:			
Network International LLC.	51	Card processing services	Dubai, U.A.E.

Other entities consolidated by the Group based on an assessment of control are as follows:

	Nature of business
Group tranche of Emblem Finance Company No. 2 Limited	SPE for asset securitisation
Emirates NBD Auto Financing Limited ("Repack")	SPE for asset securitisation
Emirates NBD Auto Finance Limited ("APC")	SPE for asset securitisation

Any material changes in the Group's principal direct subsidiaries during the year 2011 and 2010 have been disclosed in Note 11.

41 OPERATING LEASES

At 31 December, the Group's non-cancellable operating lease rentals are payable as follows:

	2011 AED 000	2010 AED 000
Less than one year	50,898	58,761
Between one and five years	115,095	161,038
More than five years	11,244	14,359
	177,237	234,158

42 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Group's commitments and contingencies are as follows:

	2011 AED 000	2010 AED 000
Letters of credit	6,687,697	8,760,513
Guarantees	30,565,114	32,001,466
Liability on risk participations	2,449,906	1,179,009
Irrevocable loan commitments	16,483,259	9,301,142
	56,185,976	51,242,130

(b) Acceptances

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital commitments

The Group has commitments for branch refurbishments and automation projects of AED 535 million (2010: AED 237 million).

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

43 RELATED PARTY TRANSACTIONS

Emirates NBD Group is owned by Investment Corporation of Dubai (55.6%), a company in which the Government of Dubai is the majority shareholder.

Deposits from and loans to government related entities, other than those that have been individually disclosed, amount to 9% (2010: 12%) and 14% (2010: 17%) respectively, of the total deposits and loans of the Group.

These entities are independently run business entities, and all financial dealings with the Group are on an arms-length basis.

The Group has also entered into transactions with certain other related parties who are non government related entities. Such transactions were also made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

	2011 AED 000	2010 AED 000
Loans and receivables:		
To majority shareholder of the parent	59,432,410	54,015,057
To parent	2,204,220	918,250
To directors and related companies	2,363,996	2,969,728
To associates	3,198,998	3,908,633
	67,199,624	61,811,668

* The composition of the Board of directors (including Chairman and Vice Chairman) underwent a change in June 2011, whereby six existing directors were retired and five new directors were appointed as part of the reconstituted Board.

	2011 AED 000	2010 AED 000
Customer and Islamic deposits:		
From majority shareholder of the parent	1,511,583	747,519
From parent	1,337,770	10,303,666
From associates and joint ventures	511,801	547,488
	3,361,154	11,598,673

43 RELATED PARTY TRANSACTIONS (continued)

	2011 AED 000	2010 AED 000
Investment in Government of Dubai bonds	836,509	900,636
Loans to and investment in funds managed by the Group	1,005,079	1,011,126
Commitments to associates	452,891	3,022,827
Customer acceptances to associates	4,947	2,451
Payments made to associates	216,869	88,854
Purchase of property from associate	1,027,345	406,072
Fees received in respect of funds managed by the Group	40,232	59,493
Interest paid to funds managed by the Group	23,646	17,733
Interest paid to joint ventures	2,323	-
Gain on transfer of shares from joint ventures	41,043	-
Key management compensation:		
Short term employee benefits	58,874	31,217
Post employee benefits	824	1,055
Termination benefits	338	300
	60,036	32,572

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The compensation paid to directors and key management personnel includes five additional members who have been inducted as key management personnel in 2011 compared to the previous year.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the period end.

44 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2011:

	GCC AED 000	International AED 000	Total AED 000
ASSETS			
Cash and deposits with Central Bank	21,519,050	7,087	21,526,137
Due from banks	12,362,259	7,489,320	19,851,579
Loans and receivables	173,638,819	3,176,215	176,815,034
Islamic financing and investment products	26,325,279	-	26,325,279
Trading securities	588,679	-	588,679
Investment securities	11,845,106	4,038,621	15,883,727
Investments in associates and joint ventures	2,023,288	18,171	2,041,459
Positive fair value of derivatives	442	2,398,432	2,398,874
Investment properties	1,130,916	-	1,130,916
Goodwill and Intangibles	5,831,018	-	5,831,018
Customer acceptances	3,777,759	-	3,777,759
Other assets	5,840,585	25,350	5,865,935
Property and equipment	2,554,981	22,009	2,576,990
TOTAL ASSETS	**267,438,181**	**17,175,205**	**284,613,386**
LIABILITIES			
Due to banks	14,952,049	11,153,184	26,105,233
Customer deposits	152,703,542	1,309,865	154,013,407
Islamic customer deposits	38,761,828	538,818	39,300,646
Repurchase agreements with banks	-	2,519,660	2,519,660
Debt issued and other borrowed funds	907,015	14,729,852	15,636,867
Sukuk payable	1,239,181	-	1,239,181
Negative fair value of derivatives	226	2,068,545	2,068,771
Customer acceptances	3,777,759	-	3,777,759
Other liabilities	4,933,242	37,566	4,970,808
Total equity	34,950,788	30,266	34,981,054
Total liabilities and equity	**252,225,630**	**32,387,756**	**284,613,386**
Geographical distribution of letters of credit and guarantees	34,424,050	2,828,761	37,252,811

31 December 2010:

	GCC AED 000	International AED 000	Total AED 000
Geographical distribution of assets	267,277,757	18,800,567	286,078,324
Geographical distribution of liabilities and equity	244,409,865	41,668,459	286,078,324
Geographical distribution of letters of credit and guarantees	37,401,234	3,360,745	40,761,979

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

45 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values:

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

As at 31 December 2011	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised (loss)/gain AED 000
Financial assets										
Due from banks	-	-	-	-	19,851,579	-	-	19,851,579	19,856,436	4,857
Loans and receivables	-	-	-	176,815,034	-	-	-	176,815,034	176,759,460	(55,574)
Islamic financing and investment products	-	-	-	26,325,279	-	-	-	26,325,279	26,325,279	-
Trading securities	588,679	-	-	-	-	-	-	588,679	588,679	-
Investment securities	442,639	359,111	15,081,977	-	-	-	-	15,883,727	15,882,870	(857)
Investments in associates and joint ventures	-	-	-	-	-	-	2,041,459	2,041,459	2,163,506	122,047
Positive fair value of derivatives	2,313,110	-	-	-	-	85,764	-	2,398,874	2,398,874	-
Others	-	-	-	-	-	-	27,758,460	27,758,460	27,758,460	-
	3,344,428	359,111	15,081,977	203,140,313	19,851,579	85,764	29,799,919	271,663,091	271,733,564	70,473
Financial liabilities										
Due to banks	-	-	-	-	26,105,233	-	-	26,105,233	26,398,917	(293,684)
Customer deposits	-	-	-	-	154,013,407	-	-	154,013,407	154,653,790	(640,383)
Islamic customer deposits	-	-	-	-	39,300,646	-	-	39,300,646	39,300,646	-
Repurchase agreements with banks	-	-	-	-	2,519,660	-	-	2,519,660	2,519,660	-
Debt issued and other borrowed funds	-	-	-	-	15,636,867	-	-	15,636,867	15,636,867	-
Sukuk payable	-	-	-	-	1,239,181	-	-	1,239,181	1,239,181	-
Negative fair value of derivatives	2,050,336	-	-	-	-	18,435		2,068,771	2,068,771	-
Others	-	-	-	-	-	-	8,748,567	8,748,567	8,748,567	-
	2,050,336	-	-	-	238,814,994	18,435	8,748,567	249,632,332	250,566,399	(934,067)

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

45 FINANCIAL ASSETS AND LIABILITIES (continued)

As at 31 December 2010	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised (loss)/gain AED 000
Financial assets										
Due from banks	-	-	-	-	13,850,467	-	-	13,850,467	13,920,154	69,687
Loans and receivables	-	-	-	177,003,613	-	-	-	177,003,613	176,881,654	(121,959)
Islamic financing and investment products	-	-	-	19,219,912	-	-	-	19,219,912	19,219,912	-
Trading securities	1,329,907	-	-	-	-	-	-	1,329,907	1,329,907	-
Investment securities	1,056,168	387,627	12,922,008	-	-	-	-	14,365,803	14,367,839	2,036
Investments in associates and joint ventures	-	-	-	-	-	-	1,411,687	1,411,687	1,020,947	(390,740)
Positive fair value of derivatives	2,135,002	-	-	-	-	310,557	-	2,445,559	2,445,559	-
Others	-	-	-	-	-	-	43,914,693	43,914,693	43,914,693	-
	4,521,077	387,627	12,922,008	196,223,525	13,850,467	310,557	45,326,380	273,541,641	273,100,665	(440,976)
Financial liabilities										
Due to banks	-	-	-	-	18,856,725	-	-	18,856,725	18,935,074	(78,349)
Customer deposits	-	-	-	-	159,872,602	-	-	159,872,602	160,632,454	(759,852)
Islamic customer deposits	-	-	-	-	40,099,406	-	-	40,099,406	40,099,406	-
Repurchase agreements with banks	-	-	-	-	892,309	-	-	892,309	892,309	-
Debt issued and other borrowed funds	-	-	-	-	19,415,809	-	-	19,415,809	19,415,809	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	1,769,036	-	-	-	-	200,310	-	1,969,346	1,969,346	-
Others	-	-	-	-	-	-	9,471,634	9,471,634	9,471,634	-
	1,769,036	-	-	-	240,404,036	200,310	9,471,634	251,845,016	252,683,217	(838,201)

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities

(a) Due from banks

Due from banks includes overnight, call and short notice accounts and time loans having a maturity of up to five years. The deposits and loans are being repriced daily, monthly, quarterly and half yearly depending on the tenure of the placements using the prevailing market rates at the repricing date. The deposits and loans are all expected to be realised on maturity.

(b) Loans and receivables

Loans and receivables are net of impairment allowances.

A significant portion of the Group's loans and receivables portfolio comprises lending to corporate customers. These facilities are given at a variable rate determined, generally, with reference to the cost of funds and market rates besides the usual parameters of tenor and risk evaluation.

The balance of the loans and receivables portfolio comprises personal loans and other debt securities. The average interest rate on the personal loans at the year-end is in line with the rate charged for such lending in the local banking market.

(c) Islamic financing and investment products

Fees levied are comparable to those prevailing in the market for similar products. There has been no significant change in the fees levied on these products for the year ended 31 December 2011.

(d) Investment securities

Investment securities are classified as available-for-sale, held to maturity or designated at fair value through profit or loss account. The fair value of investments is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the investment is estimated using pricing models or discounted cash flow techniques. Held to maturity investments are net of impairment allowances.

(e) Investments in associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for on an equity accounting basis and amount to AED 2,041.5 million at 31 December 2011 (AED 1,411.7 million at 31 December 2010). The fair value of the investments in the associate companies, which are public quoted companies on the Dubai Financial Market, amounts to AED 782.3 million at 31 December 2011 (AED 1,020.9 million at 31 December 2010).

(f) Customer deposits

Customer deposits comprise a significant amount of fixed deposits with an original maturity, generally, of one to three months. These deposits are repayable on maturity. A significant portion of these deposits has been maintained with the Group for a number of years on a roll over basis. For customer deposits maturing after three months of the year end date, a fair value has been arrived at by applying appropriate interest rates prevailing at the year end to these balances.

The balance of the customer deposits, primarily comprising interest bearing savings, call and fixed deposit accounts and non-interest bearing current accounts, is repayable on demand.

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities (continued)

(g) Islamic customer deposits

Islamic customer deposits receive a share of the profits of the Islamic Bank which has been approved by the Sharia'a Committee at the year end.

(h) Due to banks

Due to banks includes short-term borrowings with an original maturity, generally, of less than three months and non-interest bearing deposits. The short-term borrowings are repayable on maturity. The non-interest bearing deposits are repayable on demand. For borrowings maturing after three months from the balance sheet date, the fair value has been arrived at by applying the market interest rates prevailing at the year end to these deposits.

(i) Repurchase agreement with banks

These deposits are repriced on a quarterly basis and thus the carrying value is comparable to the fair value of the deposit.

(j) Debt issued and other borrowed funds

These borrowings have repayment periods of up to three years and the loans were taken at a variable rate determined, generally, with reference to the ninety-day LIBOR rate.

Valuation of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
31 December 2011				
Financial assets held for trading	421,967	25,035	141,677	588,679
Available-for-sale financial assets	11,553,903	1,592,785	1,935,289	15,081,977
Financial assets designated at fair value through profit or loss	92,636	347,018	2,985	442,639
Positive fair value of derivatives	-	2,398,874	-	2,398,874
Negative fair value of derivatives	-	(2,068,771)	-	(2,068,771)
	12,068,506	2,294,941	2,079,951	16,443,398

بنك الإمارات دبي الوطني
Emirates NBD

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

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

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Financial assets held for trading AED 000	Total AED 000
Balance as at 1 January 2011	2,036,039	2,219	-	2,038,258
Total gains or losses:				
• in profit or loss	(19,521)	(10,328)	(98,919)	(128,768)
• in other comprehensive income	(6,452)	-	-	(6,452)
Purchases	128,686	11,094	240,596	380,376
Settlements	(148,368)	-	-	(148,368)
Transfers out of Level 3	(55,095)	-	-	(55,095)
Balance as at 31 December 2011	1,935,289	2,985	141,677	2,079,951

	Level 1 AED 000	Level 2 AED 000	Level 3 AED 000	Total AED 000
31 December 2010				
Financial assets held for trading	1,329,907	-	-	1,329,907
Available-for-sale financial assets	8,982,623	1,903,346	2,036,039	12,922,008
Financial assets designated at fair value through profit or loss	466,307	587,642	2,219	1,056,168
Positive fair value of derivatives	-	2,445,559	-	2,445,559
Negative fair value of derivatives	-	(1,969,346)	-	(1,969,346)
	10,778,837	2,967,201	2,038,258	15,784,296

45 FINANCIAL ASSETS AND LIABILITIES (continued)

Valuation of financial instruments (continued)

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

	Available for sale financial assets AED 000	Financial assets designated at fair value through profit or loss AED 000	Positive fair value of derivatives AED 000	Total AED 000
Balance as at 1 January 2010	3,195,929	21,868	1,070	3,218,867
Total gains or losses:				
• in profit or loss	(11,251)	(19,649)	(1,070)	(31,970)
• in other comprehensive income	-	-	-	-
Purchases	55,564	-	-	55,564
Settlements	(422,173)	-	-	(422,173)
Transfers out of Level 3	(782,030)	-	-	(782,030)
Balance as at 31 December 2010	2,036,039	2,219	-	2,038,258

During the financial year ended 31 December 2011 available for sale financial assets with a carrying amount of AED Nil (2010: AED 349 million) were transferred from Level 1 to Level 2 because quoted prices in the market for such debt securities became no longer regularly available. In order to determine the fair value of such debt securities, management used a valuation technique in which all significant inputs were based on observable market data. There have been transfers from Level 2 to Level 1 amounting to AED Nil (2010: AED 2,606 million) during the year 2011.

46 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

		2011 AED 000	2010 AED 000
(a)	Analysis of changes in cash and cash equivalents during the year		
	Balance at beginning of year	(589,330)	(16,395,503)
	Net cash inflow	(1,745,884)	15,806,173
	Balance at end of year	(2,335,214)	(589,330)
(b)	Analysis of cash and cash equivalents		
	Cash and deposits with Central Bank	21,526,137	37,682,944
	Due from banks (includes AED 24,934 ('000) classified as under assets for sale in 2010)	19,851,579	13,875,401
	Due to banks (includes AED 44 ('000) classified as assets for sale in 2010)	(26,105,233)	(18,856,768)
		15,272,483	32,701,577
	Less : deposits with Central Bank for regulatory purposes	(12,633,518)	(10,721,819)
	Less : certificates of deposits with Central Bank	(5,700,000)	(24,250,000)
	Less : amounts due from banks maturing after three months	(2,981,944)	(228,865)
	Add : amounts due to banks maturing after three months	3,707,765	1,909,777
		(2,335,214)	(589,330)

47 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital is computed at a Group level using the Basel I & II framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. While Basel I allocates capital only for the Credit Risk, the Basel II capital regime is more inclusive (described below). The Basel II framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Minimum Capital Requirements

For implementing current capital requirements, the Central Bank of UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 12% (of which Tier I to be 8%).

The tiered components of Bank's regulatory capital comprise of:

- Tier I capital includes share capital, legal, statutory and other reserves, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier II capital includes qualifying subordinated debt and fair value reserve.

The capital adequacy ratio as per Basel I framework is given below:

	2011 AED 000	2010 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,451,405	2,198,205
Other reserves	2,869,533	2,869,533
Retained earnings	7,587,509	6,700,409
Tier I capital notes	4,000,000	4,000,000
Non-controlling interest	46,280	93,820
Total tier I capital	34,782,626	33,689,866
Less : Goodwill and intangibles (includes AED 26,733 ('000) classified as under assets for sale in 2010)	(5,831,018)	(5,951,611)
Less : Treasury shares	(46,175)	(46,175)
Total	28,905,433	27,692,080

47 CAPITAL MANAGEMENT AND ALLOCATION (continued)

	2011 AED 000	2010 AED 000
Tier II capital		
Fair value reserve	110,071	47,655
Hybrid (debit/equity) capital instruments	12,584,215	12,584,215
Subordinated debt	1,837,136	3,236,481
Total	14,531,422	15,868,351
Eligible tier II capital	14,531,422	15,868,351
Total regulatory capital	43,436,855	43,560,431

RISK WEIGHTED EXPOSURE

	2011 AED 000	2010 AED 000
Corporate banking	141,447,295	141,801,149
Consumer banking	21,050,187	20,485,003
Treasury	15,527,469	13,550,903
Others	11,127,402	8,841,036
Total	189,152,353	184,678,091
Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	22.96%	23.59%
Total tier I capital as a percentage of risk weighted assets	15.28%	14.99%

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

47 CAPITAL MANAGEMENT AND ALLOCATION (continued)

Implementation of Basel II guidelines

The Group is compliant with the Standardized Approach for Credit, Market and Operational Risk (Pillar I) with effect from 31st December 2007.

The Bank also assigns capital on other than Pillar I risk categories, for 'Interest Rate risk on Banking Book' and for 'Business Risk', within the Pillar II framework.

The capital adequacy ratio as per Basel II framework is given below:

	2011 AED 000	2010 AED 000
Tier I capital		
Issued capital	5,557,775	5,557,775
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	2,451,405	2,198,205
Other reserves	2,869,533	2,869,533
Retained earnings	7,587,509	6,700,409
Tier I capital notes	4,000,000	4,000,000
Non-controlling interest	46,280	93,820
Total tier I capital	34,782,626	33,689,866
Less : Goodwill and intangibles (includes AED 26,733 ('000) classified as under assets for sale in 2010)	(5,831,018)	(5,951,611)
Less : Treasury shares	(46,175)	(46,175)
Total	28,905,433	27,692,080
Tier II capital		
Undisclosed reserves/ general provisions	3,751,933	2,192,636
Fair value reserve	110,071	47,655
Hybrid (debit/equity) capital instruments	12,584,215	12,584,215
Subordinated debt	1,837,136	3,236,481
Total	18,283,355	18,060,987
Eligible tier II capital	16,686,640	15,873,694
Total regulatory capital	45,592,073	43,565,774

47 CAPITAL MANAGEMENT AND ALLOCATION (continued)

RISK WEIGHTED EXPOSURE

	2011 AED 000	2010 AED 000
Credit risk	206,506,517	204,415,544
Market risk	1,548,801	2,349,730
Operational risk	14,019,747	13,762,621
	222,075,065	220,527,895
Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted assets	20.53%	19.76%
Total tier I capital as a percentage of risk weighted assets	13.02%	12.56%

48 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 4,652 million at 31 December 2011 (2010: AED 4,305 million).

49 ASSETS HELD IN FIDUCIARY CAPACITY

The Group holds assets in a fiduciary capacity for its customers, including gold amounting to AED 455 million. Furthermore, the Group provides custodian services for some of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the Group consolidated financial statements.

50 RISK MANAGEMENT

Risk management framework:

The complexity in the Group's business operations and diversity of geographical locations requires identification, measurement, aggregation and effective management of risk. The Group manages its risks through a comprehensive risk management framework which incorporates organisational structure, risk measurement and monitoring processes.

The key features of the Group's risk management framework are:

- The Board of Directors ("the Board") has the overall responsibility of managing risk and provides the overall risk management direction and oversight.
- The Group's risk appetite is determined by the EXCO and approved by the Board.
- Board committees meet regularly and are responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework.
- The Group's overall risk management policies are managed by the Group Risk management function ("Group Risk"), headed by the General Manager, Risk ("CRO"). This function is independent of the business divisions.
- Risk management is embedded in the Group as an intrinsic process.

50 RISK MANAGEMENT (continued)

Group Risk assists senior management in controlling and actively managing the Group's overall risk profile. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- The Group's overall business strategy is consistent with its risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.

Risk management process:

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations, are escalated to the management for appropriate and timely action.

Credit Risk

Credit Risk is the risk that a customer or counterparty will fail to meet a commitment thereby, resulting in a financial loss to the Group. Credit risk also captures 'Settlement risk, which is the risk of a counterparty failing to deliver on a financial markets transaction at settlement, and 'Residual risk', which arises from an insufficient ability to realize collaterals later.

Credit risk management and structure:

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy focuses on the core credit policies and includes lending parameters, target businesses, specific policy guidelines, management of high risk customers and provisioning guidelines.

The Board and the Board Credit and Investment Committee ("BCIC") have delegated authority to the Management Credit and Investment Committee ("MCIC") and certain members of the senior management to facilitate and effectively manage the business. A chain of specific delegated limits are also vested upon individuals starting from business unit levels to the Chief Executive Officer ("CEO"). However, the Board and the BCIC retain the ultimate authority to approve larger credits.

Independent functions within Group Risk manage credit risks on the corporate and consumer portfolios.

Management of corporate credit risk:

The process for managing corporate credit risk is as follows:

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, customers' creditworthiness, sources of re-payment, prevailing and potential macro-economic factors, industry trends and also the customer's standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.

50 RISK MANAGEMENT (continued)

Management of corporate credit risk: (continued)

- Borrower risk grading – Internal rating models have been developed and implemented across various business segments of the bank to assess the credit quality of the borrowers. The bank uses these models to assign internal risk grades to these borrowers on the bank's rating Masterscale. The rating Masterscale consists of 25 performing and 3 non-performing or default grades. In parallel each borrower is rated on a scale of 1 to 5, in line with the Central Bank of UAE requirements.
- Management of high risk accounts – This includes identification of delinquent accounts, sectors with higher risk and controls applicable for close monitoring. Policies on interest suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

Management of consumer credit risk:

- An independent unit formulates consumer credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Consumer lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history. Application and behavior Probability of Default ("PDs") are used to map consumer exposures to the bank's Masterscale.

The Group's exposures are continuously monitored through a system of triggers and early warning signals, which are used in the risk grading process. These are supplemented by monitoring of account conduct, valuation of collateral and market intelligence.

The health of the Group's credit portfolio is continuously assessed and monitored on the basis of exception, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

A specialized "Special Loans Group" team handles the management and collection of problem credit facilities.

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure ceilings imposed by the Central Bank of the UAE;
2. Exposure ceilings imposed by the Board / BCIC / MCIC / Management delegated limits;
3. Country limits approved by the Board / BCIC / MCIC / Management delegated limits; and
4. Various sectoral / product ceilings.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2011 AED 000			2010 AED 000		
	Loans and receivables	**Islamic financing**	**Others**	**Loans and receivables**	**Islamic financing**	**Others**
Agriculture and allied activities	21,115	457	-	36,076	629	-
Mining and quarrying	897,868	-	193,199	273,336	46	34,643
Manufacturing	5,728,006	384,066	426,143	7,755,030	390,499	959,039
Construction	7,067,917	648,618	859,490	5,748,778	780,350	441,037
Trade	7,032,929	1,217,967	-	6,840,720	714,382	-
Transport and communication	4,380,201	169,819	759,644	4,279,938	196,906	1,127,771
Services	15,712,306	1,820,396	1,865,557	16,819,154	1,482,603	1,502,865
Sovereign	59,081,392	877,424	3,314,912	54,015,057	-	2,582,100
Personal - retail	20,781,814	8,546,485	-	20,396,756	5,339,912	-
Personal - corporate	9,649,070	1,866,212	-	10,209,843	1,838,455	-
Real estate	25,276,127	8,042,686	2,430,566	25,926,913	6,704,993	2,834,079
Banks	46,126	-	24,471,167	44,737	-	18,642,961
Other financial institutions and investment companies	26,995,227	4,426,895	5,032,839	25,245,267	3,117,052	2,770,900
Others	5,629,168	524,688	619,023	6,893,742	188,163	1,110,086
Total assets	188,299,266	28,525,713	39,972,540	184,485,347	20,753,990	32,005,481
Less: Allowances for impairment	(11,484,232)	(1,412,786)	(1,607,096)	(7,481,734)	(840,326)	(1,047,617)
Less: Deferred income	-	(787,648)	-	-	(693,752)	-
	176,815,034	26,325,279	38,365,444	177,003,613	19,219,912	30,957,864

Others includes due from banks, investment securities, trading securities and investments in associates and joint ventures.

بنك الإمارات دبي الوطني
Emirates NBD

50 RISK MANAGEMENT (continued)

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

As of 31 December 2011

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	704,000	-	704,000
AA- to AA+	-	164,280	3,448,984	43,149	3,656,413
A- to A+	-	34,291	2,234,751	73,271	2,342,313
Lower than A-	79,010	-	2,950,208	-	3,029,218
Unrated	363,629	160,540	5,744,034	472,259	6,740,462
	442,639	359,111	15,081,977	588,679	16,472,406

Of which issued by:

	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	170,448	3,528,331	49,991	3,748,770
Public sector enterprises	12,791	83,218	2,711,243	66,499	2,873,751
Private sector and others	429,848	105,445	8,842,403	472,189	9,849,885
	442,639	359,111	15,081,977	588,679	16,472,406

50 RISK MANAGEMENT (continued)

As of 31 December 2010

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	556,232	-	556,232
AA- to AA+	-	114,389	2,269,324	135,780	2,519,493
A- to A+	3,018	85,940	1,734,623	150,773	1,974,354
Lower than A-	98,844	18,365	1,998,796	39,134	2,155,139
Unrated	954,306	168,933	6,363,033	1,004,220	8,490,492
	1,056,168	387,627	12,922,008	1,329,907	15,695,710

Of which issued by:

	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	-	169,484	2,665,139	187,101	3,021,724
Public sector enterprises	26,322	101,934	1,948,209	754,561	2,831,026
Private sector and others	1,029,846	116,209	8,308,660	388,245	9,842,960
	1,056,168	387,627	12,922,008	1,329,907	15,695,710

Collateral management:

Credit risk assessment identifies the primary sources of repayment which are the obligor's normal business cash flows and/or normal personal income. Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the collateral.

Acceptable collateral includes deposits marked with lien, mortgages over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation frequencies are documented in the credit policy.

50 RISK MANAGEMENT (continued)

Collateral management (continued):

Collaterals are revalued as a general rule as per the Group's credit policy. However adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

Risk gross maximum exposure:

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

	2011 AED 000	2010 AED 000
Deposits with Central Bank	19,548,183	36,143,119
Due from banks	19,851,579	13,850,467
Loans and receivables	176,815,034	177,003,613
Islamic financing and investment products	26,325,279	19,219,912
Trading securities	588,679	1,329,907
Investment securities	15,883,727	14,365,803
Investments in associates and joint ventures	2,041,459	1,411,687
Positive fair value of derivatives	2,398,874	2,445,559
Customer acceptances	3,777,759	4,632,810
Total (A)	**267,230,573**	**270,402,877**
Contingent liabilities	39,702,717	41,940,988
Irrevocable loan commitments	16,483,259	9,301,142
Total (B)	**56,185,976**	**51,242,130**
Total credit risk exposure (A + B)	**323,416,549**	**321,645,007**

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets, based on the Group's credit rating system.

31 December 2011			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date* AED 000	<30 days AED 000	31-60 days AED 000	61-90 days AED 000	> 90 days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	19,851,579	19,840,130	-	-	-	-	45,701	(3,239)	(31,013)	11,449
Loans and receivables:										
Corporate banking	158,636,786	131,927,993	3,405,230	856,696	707,300	3,452,599	23,895,379	(1,062,122)	(4,546,289)	18,286,968
Consumer banking	17,916,661	15,602,564	1,430,476	335,171	192,273	-	6,738,026	(3,111,546)	(3,270,303)	356,177
Treasury - other debt securities	261,587	161,286	-	-	-	-	340,501	-	(240,200)	100,301
Islamic financing	26,325,279	21,135,948	1,829,350	199,135	406,157	929,352	2,997,977	(84,347)	(1,088,293)	1,825,337
Trading and investment securities:										
Quoted - Government debt	3,633,417	3,633,417	-	-	-	-	-	-	-	-
Quoted - Other debt securities	7,259,674	7,221,263	-	-	-	-	49,966	-	(11,555)	38,411
Unquoted - Debt securities	1,060,550	898,430	-	-	-	-	308,898	-	(146,778)	162,120
Other securities	4,518,765	3,882,581	-	-	-	-	1,377,934	-	(741,750)	636,184

50 RISK MANAGEMENT (continued)

CREDIT QUALITY ANALYSIS (continued):

31 December 2010 Type of receivable	Carrying amount AED 000	Of which neither impaired nor past due on reporting date* AED 000	Of which past due but not impaired on the reporting date: <30 days AED 000	31-60 days AED 000	61-90 days AED 000	> 90 days AED 000	Of which individually impaired: Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	13,850,467	13,832,041	-	-	-	-	47,966	(2,050)	(27,490)	18,426
Loans and receivables:										
Corporate banking	159,256,846	133,518,549	4,251,601	1,092,838	1,372,919	6,263,617	15,583,294	(428,264)	(2,397,708)	12,757,322
Consumer banking	17,352,146	14,643,832	1,774,434	318,945	239,705	13,986	5,049,173	(1,815,837)	(2,872,092)	361,244
Treasury - other debt securities	394,621	298,142	-	-	-	-	361,418	-	(264,939)	96,479
Islamic financing	19,219,912	15,095,332	1,442,315	270,922	339,633	991,370	1,675,025	-	(594,685)	1,080,340
Trading and investment securities:										
Quoted - Government debt	2,852,240	2,852,240	-	-	-	-	-	-	-	-
Quoted - Other debt securities	5,893,059	5,892,141	-	-	-	-	3,674	-	(2,756)	918
Unquoted - Debt securities	2,064,516	1,968,931	-	-	-	-	263,995	-	(168,410)	95,585
Other securities	4,885,895	4,566,828	-	-	-	-	808,028	-	(488,961)	319,067

50 RISK MANAGEMENT (continued)

Loans with renegotiated terms

Loans with renegotiated terms are loans, the repayment plan of which have been restructured to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or interest, but in some instances with improved security. These loans are treated as standard loans and continue to be reported in the renegotiated loans category until satisfactory adherence with the revised terms for a minimum period of twelve months from the date of restructuring. Renegotiated loans are secured by a combination of tangible security and/or corporate/personal guarantees.

Past due but not impaired

For corporate loans, the entire outstanding exposure of a facility which has been past due is disclosed. Based on an individual assessment, the Group determines that impairment on the total outstanding is not required considering the borrower's ability to pay, past track record, overall exposure levels, materiality of the past due, types of collaterals, quality of borrower's receivables and/or the stage of collection of the amounts owed to the Group. Amounts that were past due and settled in a short period after the balance sheet date due to matters of an operational nature have been excluded.

Definition of impaired financial assets

A counterparty is marked as impaired if:

(a) In case of corporate exposures, the Group considers the counterparty unlikely to pay the full amount outstanding under the original terms of the contract due to one of the following conditions:

- A material credit obligation has been put on non-accrual status.
- Distressed restructuring of a credit obligation.
- Selling of a credit obligation at an economic loss.
- The Group or a third party has filed for the counterparty's bankruptcy.

(b) In case of consumer, if the exposure is past due for more than 90 days.

Impairment assessment

The asset portfolio is reviewed at least quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per the credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at least on quarterly intervals to the Board sub committees.

Measurement of specific impairment

Corporate: The Group determines the impairment appropriate for each individually significant loan or advance on an individual basis in line with UAE Central Bank and IFRS requirements. The Group classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly. The impairment losses are evaluated on an ongoing basis. Specific impairment is assessed when a credit exposure shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Delinquent accounts are broadly classified as Substandard, Doubtful or Loss. The following general guidelines are followed for specific provisioning:

- Those accounts where agreed payments of principal and/or interest are more than 90 consecutive days in arrears are classified as "Substandard accounts". The accrued interest remains suspended while a minimum provision of 25 percent of the net exposure amount is made.

50 RISK MANAGEMENT (continued)

Measurement of specific impairment (continued)

- Those accounts where partial loss of principal is expected and full recovery of interest and fees is not expected are classified as "Doubtful accounts". The accrued interest is suspended from the date that accounts are so classified and a minimum provision of 50 percent of the net exposures is made.

- Those accounts where a full loss of principal and interest is expected and where the Guarantor has exhausted all recourse to recovery are classified as "Loss accounts". 100 percent of the net exposure amount is provided in such cases.

All accounts classified as "Sub Standard", "Doubtful" and "Loss" constitute "Non- Performing Accounts" and, unless it is believed that the debt can be recovered by the business units, where appropriate, the debt is then transferred to the Special Loans Group (the "SLG"), a unit that specializes in remedial management. The remedial management of accounts and the booking of provisions for accounts not transferred to the SLG continue to be the responsibility of the individual business unit.

The Group generally waits until all legal and other remedies are exhausted before writing-off fully provisioned loans.

Consumer: Criteria for provisions is based on products, namely, credit cards and other consumer loans. All consumer loans are classified as non-performing at 90 days past due and provisions are made in line with the Group's income and loss recognition policies as well as the UAE Central Bank guidelines.

Measurement of collective impairment

Provisions for collective impairment are made based on the IAS 39 guidelines. Impairments that cannot be identified with an individual loan are estimated on a portfolio basis. The Group has adopted the following methodologies for determining the collective portfolio impairment provisions:

Corporate: Historical loss rates for different industry sectors are considered to determine the collective impairment provisions for the corporate portfolios. To ensure that the impact of economic cycles are incorporated, the loss rates are benchmarked against published default histories observed over economic cycles in different markets. Industry specific adjustments are made to reflect the current market conditions. A number of stress scenarios are run to ensure that the reserves are adequate and reflect a realistic level of collective impairment provisions.

Consumer: Collective impairment provisions for the consumer portfolios are determined based on a flow rates methodology. Flow rates for various consumer loan products are monitored over a period of time to determine the average flow rates. The flow rates and average loss rates for various historical windows are considered to determine the appropriate level of collective impairment provisions.

Write offs

Corporate: Facilities where partial loss of principal is expected and full recovery of interest and fees is not expected or which are overdue for 180 days or more are transferred on a case-by-case basis to the Specialized Loans Group for specialized remedial management and, where appropriate, written off as approved by the board.

Consumer: Consumer loans are written off in the event of a compromise settlement agreed between the Group and the customer.

50 RISK MANAGEMENT (continued)

Market risk

Market Risk is defined as exposure to adverse changes in the market value of portfolios and positions in financial instruments, caused by changes in market prices. This can be divided into basic market risk factors such as foreign exchange rates, interest rates, equity prices and their volatilities.

The Group separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions arising from market-making, position-taking and other marked-to-market positions so designated. Non-trading portfolios include positions that arise from the interest rate management of Group's consumer and commercial banking assets and liabilities, financial investments designated as available for sale and held to maturity.

Market Risk management is designed to mitigate the amount of potential losses on open positions which may arise due to unforeseen changes in market prices/rates (e.g. foreign exchange rates, interest rates or securities prices). The Group transacts in diverse set of financial instruments, both physical and derivative, that include securities, currencies and equities.

The Group uses appropriate and standard market models for the valuation of its vanilla positions and liquid structured products; and receives regular market information from common market data providers in order to measure and monitor market risk. Well defined policies, procedures and the trading limits are in place to ensure the implementation of Market Risk oversight of day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's general market risk philosophy. In addition to its internal policy and procedures, the Group is required to comply with the guidelines and regulations of applicable jurisdictions (e.g. The Central Bank of the UAE, DFSA) it operates in.

Market Risk is a function independent of business/risk taking activities, and reports to the CRO. All market risk limits are approved by BCIC and delegated through Group Asset Liability Management Committee ("ALCO") to Group's Global Markets and Treasury division ("Treasury"). Any new limits or extensions to existing limits are reviewed and if appropriate, supported by Market Risk before being proposed to the BCIC for approval. This ensures that all limits are approved and delegated in close consultation with Market Risk. All limit breaches are recorded by Market Risk and reported to the CRO, Head of Treasury and the responsible Desk Head. Treasury must provide adequate explanation for any limit breaches and the strategy to remedy the breaches. All limit breaches and related information are reported to ALCO on monthly basis.

Market Risk monitors limit utilization on a daily basis through a multi-layered Limit Monitoring System which uses data and reports from the treasury systems (i.e. Kondor+ and Calypso).

Limit monitoring reports are prepared on a daily basis and the historical utilizations for all limit exposures are presented for periodic management review. This forms a part of the monthly ALCO pack which is provided to senior management.

50 RISK MANAGEMENT (continued)

Market risk (continued)

The following is a sample of limit-types monitored by Market Risk on a daily basis:

- Stop loss limit for foreign exchange, interest rate derivatives, securities, equities and commodities trading desks and a total stop loss limit for all trading activities.
- Overall PV01 limits for the Interest Rate Derivatives.
- PV01 Limits by time buckets.
- Spread Risk for USD/AED and USD/SAR to control exposure in the pegged currencies.
- Open Position limits for foreign exchange by three currency groups and overall open position limits.
- Option premium limits for buying options.
- Contract limits for exchange traded products such as Interest Rate Futures and Bond Futures.
- Notional limits for Forward Rate Agreements and Interest Rate Swaps (IRS)/Currency Interest Rate Swaps (CIRS).
- Greeks (Delta, Gamma and Vega) limits for options trading.
- Value at Risk (VaR) Limits

Foreign exchange risk hedging strategies are used to ensure that positions are always within established limits. The Group has a conservative policy towards foreign exchange risk and has set limits on positions by currency. Foreign exchange risk is measured using position reports showing the net long or short position for currencies, which are monitored on a real-time basis. Foreign exchange risk is actively managed using spot and forward foreign exchange instruments.

Foreign exchange exposure at year end (banking book + trading book):

	31 December 2011		31 December 2010	
Currency	Open position in currency 000	Open position in AED 000	Open position in currency 000	Open position in AED 000
CHF	(113)	(442)	(1,036)	(4,059)
EUR	1,877	8,929	(8,144)	(39,928)
GBP	1,990	11,350	(42,905)	(243,993)
KWD	730	9,624	11,814	154,193
OMR	(188,321)	(1,794,986)	(103,763)	(989,021)
QAR	752,119	758,181	1,828,882	1,843,623
SAR	(6,987,396)	(6,837,376)	(8,080,324)	(7,906,839)
USD	960,151	3,526,151	(294,901)	(1,083,023)
Others*	188,569	36,998	957,045	177,042

	2011	2010
Total open position (AED 000)	(4,281,571)	(8,092,005)
Total open position limit (AED 000)	42,338,090	37,514,587
Limit utilisation (in %)	-10.11%	-21.57%

*Others include minor exposures in various other currencies.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

Trading book managed by Market Risk Management

The Group has a conservative trading policy. All new products are only authorized if adequate infrastructure has been assured and approved by senior management. Trading risk limits for foreign exchange, securities, interest rate products and derivatives are reviewed annually and approved by relevant authorities. The Treasury is responsible for managing trading risk exposure within approved trading risk limits. These limits are low in comparison to the balance sheet size. Systems and procedures are in place to monitor and report related exposure on a daily basis.

To measure and monitor the interest rate risk in the trading book, the Group employs PV01 and VaR limits. Contract limits were established for exchange traded derivatives, and notional limits are put in place for over the counter (OTC) products. Delta, Gamma and Vega limits are established for options trading.

Interest rate derivatives exposure:

Impact of +1 basis point parallel shift in the yield curve, on the trading book:

Transaction Currency	2011 AED 000 equivalent	2010 AED 000 equivalent
USD	(5)	53
AED	34	(20)
SAR	(4)	(6)
EUR	(10)	6
Total	15	33

The Bank has implemented Reuters' KVaR+ system for Value-at-Risk (VaR) calculations, scenario building, and stress testing trading risk. The VaR is calculated according to two different methodologies:

- Historical simulation
- Monte-Carlo simulation

The Monte-Carlo simulation implemented at the Group uses a transformed distribution (based on the original distribution to preserve the characteristics of the empirical distribution).

Emirates NBD بنك الإمارات دبي الوطني

50 RISK MANAGEMENT (continued)

Trading book managed by Market Risk Management (continued)

The VaR system is set up to generate daily reports at two different confidence levels and under two different holding period assumptions, as shown in the following table:

Methodology	Confidence Level	Holding Period (Horizon)
Historical simulation	95%	1 day 10 days
	99%	1 day 10 days
Monte Carlo simulation	95%	1 day 10 days
	99%	1 day 10 days

The KVaR+ system has been configured to highlight the independent impact of every risk factor that contributes to the total VaR figure. Thus the Group's management is able to disaggregate daily total VaR by the following risk types:

- Interest rate VaR
- Currency VaR
- Volatility VaR
- Residual VaR

Year end Value at Risk:

- Confidence level : 99%
- Holding period : 1 day
- Methodology: Monte Carlo simulation

Total Value at Risk	2011 AED 000	2010 AED 000
As at 31 December	3,546	5,374
Average	5,077	7,039
Minimum	72	1,923
Maximum	22,236	16,068

50 RISK MANAGEMENT (continued)

Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Group wide operational risk policy outlines the approach and the governance structure for the monitoring and managing of operational risks and to ensure compliance with the Basel II requirements. The Group's operational risk framework, as summarized below, is being implemented across all Group entities.

As part of the implementation of the Basel II requirements, the Group's risk management process enables identification, assessment, reporting, management and monitoring of the Group's operational risks. Line management has primary responsibility for managing operational risks with the executive committee having overall authority to sanction operational risks and approve operational risk mitigation measures.

The Group has set up the Group operational risk function within Group risk to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, the Group operational risk function also provides analysis and reports on operational risks to senior management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through the Group Operational Risk and Compliance Committee ("ORCC"). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires senior management involvement from every unit and major entity of the Group.

The Group has implemented the following processes to proactively monitor and manage operational risks:

- For the assessment of any operational risk of a new or amended product or process prior to its implementation, the Group established the Control Risk Self Assessment (CRSA) process. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives.

- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units, i.e. where these events are encountered. The operation risk management function supports the respective units in the analysis of operational risk events and provides Group-wide reporting on these events.

- IT Security processes ensure confidentiality, integrity and availability of the Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Group operational risk function ensures that security processes are integrated with strategic and operational planning processes to secure the organisation's mission.

- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy.

بنك الإمارات دبي الوطني
Emirates NBD

50 RISK MANAGEMENT (continued)

Operational risk (continued)

- The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they come due (Structural Funding Risk), or the inability to convert assets into cash, at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both, normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core consumer and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Liquidity risk is managed centrally by the Group ALCO where liquidity risk is a standing agenda item. Group ALCO comprises of the CEO, CFO, CRO, and the heads of all major lines of business (Treasury, Wholesale Banking and Consumer & Wealth Management), and is the central authority for identifying and managing such risk. Group Risk is responsible for liquidity measurement, monitoring and control and reports risk exposures independently to the Group ALCO.

When an operating subsidiary or branch is subject to liquidity limits imposed by its local regulator, the subsidiary or the branch is responsible for managing its overall liquidity within the regulatory limit, in coordination with the Group Central Treasury. Group Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

Policies and Procedures

The Group ALCO, through the Treasury operates a centralized governance and control process that covers the Group's liquidity risk management activities. The subsidiaries coordinate their capital and wholesale market funding at optimal pricing through Treasury, under the oversight and direction of the Group ALCO.

50 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Policies and Procedures (continued)

Specifically, liquidity and funding management process includes:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments.
- monitoring balance sheet liquidity and advances to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

Liquidity risk monitoring

All funded liquidity risk positions are monitored and evaluated by Group risk to identify mis-matches of future cash inflows and corresponding maturity of liabilities over the short term and by major currencies.

The Group ALCO reviews the funding capacity, and its sensitivity to any key event, based on the judgment of the Treasury function that is responsible for maintaining diversified funding sources within Capital and Money Markets.

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis / concentrations;
- Varied funding programs;
- Investor diversification; and
- Mix of channels (Consumer Vs Corporate) and liability products

50 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Liquidity risk mitigation

The Group ALCO, in conjunction with Treasury is primarily responsible for implementing the liquidity management strategies on structural positions, and maintaining adequate liquidity buffers for possible distress situations. The Group maintains adequate liquidity buffers of high credit quality (minimum AA-), which can be monetized at short notice and minimal cost. Other business units contribute to overall structural liquidity management through product mix strategies and deposit targets.

The Group ALCO, in line with the best practices, recognizes that users and providers of liquidity as a resource should be compensated in an equitable and transparent manner. This is achieved through the Funds Transfer Pricing ("FTP") system which is aligned to charge/compensate for liquidity of the underlying assets or liabilities. These processes are embedded into product pricing decisions and performance measurement systems. The Group risk function in conjunction with Treasury and finance function manages and calibrates the FTP system for the Group, in the light of business strategies or market movements.

The Group uses cash-flow stress testing as part of its control processes to assess liquidity risk. The Group does not manage liquidity through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. The Group recognizes that a strong capital base helps to mitigate liquidity risk both by providing a capital buffer to allow an entity to raise funds and by serving to reduce the credit risk taken by providers of funds to the Group.

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2011	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
ASSETS						
Cash and deposits with Central Bank	15,826,137	5,700,000	-	-	-	21,526,137
Due from banks	16,869,635	1,056,124	918,982	1,006,838	-	19,851,579
Loans and receivables	83,092,366	10,073,827	29,572,889	24,236,342	29,839,610	176,815,034
Islamic financing and investment products	6,223,413	3,614,936	6,426,982	4,156,181	5,903,767	26,325,279
Trading securities	-	18,845	39,643	73,047	457,144	588,679
Investment securities	850,999	2,617,473	5,352,737	3,378,365	3,684,153	15,883,727
Investments in associates and joint ventures	-	-	-	-	2,041,459	2,041,459
Positive fair value of derivatives	304,477	332,474	670,029	458,668	633,226	2,398,874
Investment properties	-	-	-	420,800	710,116	1,130,916
Goodwill and Intangibles	19,862	60,000	123,000	95,214	5,532,942	5,831,018
Customer acceptances	3,687,663	90,096	-	-	-	3,777,759
Other assets	2,961,763	-	1,433,417	-	1,470,755	5,865,935
Property and equipment	177,137	68,279	157,293	344,997	1,829,284	2,576,990
TOTAL ASSETS	**130,013,452**	**23,632,054**	**44,694,972**	**34,170,452**	**52,102,456**	**284,613,386**

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2011	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
LIABILITIES						
Due to banks	22,397,468	3,707,765	-	-	-	26,105,233
Customer deposits	113,804,702	28,301,266	330,944	11,576,495	-	154,013,407
Islamic customer deposits	24,599,551	9,168,622	4,450,601	1,081,872	-	39,300,646
Repurchase agreements with banks	1,674,374	-	845,286	-	-	2,519,660
Debt issued and other borrowed funds	1,651,422	6,813,255	2,203,101	1,498,132	3,470,957	15,636,867
Sukuk payable	-	1,239,181	-	-	-	1,239,181
Negative fair value of derivatives	114,126	298,772	642,769	393,697	619,407	2,068,771
Customer acceptances	3,687,663	90,096	-	-	-	3,777,759
Other liabilities	4,808,108	-	-	162,700	-	4,970,808
Total equity	-	-	-	-	34,981,054	34,981,054
TOTAL LIABILITIES AND EQUITY	**172,737,414**	**49,618,957**	**8,472,701**	**14,712,896**	**39,071,418**	**284,613,386**
OFF BALANCE SHEET						
Letters of Credit and Guarantees	11,352,933	7,105,731	16,881,471	-	1,912,676	37,252,811
31 December 2010						
ASSETS	124,527,980	41,646,693	50,160,900	24,910,442	44,832,309	286,078,324
LIABILITIES	173,231,663	42,449,183	16,997,853	18,115,582	35,284,043	286,078,324
OFF BALANCE SHEET ITEMS	8,519,087	13,259,306	18,983,586	-	-	40,761,979

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2011	Carrying amount	Gross nominal outflows	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
Financial liabilities	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Due to banks	26,105,233	(26,136,680)	(22,224,782)	(3,911,898)	-	-	-
Customer deposits	154,013,407	(157,097,126)	(118,460,896)	(24,850,532)	(1,734,818)	(12,050,880)	-
Islamic customer deposits	39,300,646	(39,311,906)	(23,339,082)	(10,440,035)	(4,450,917)	(1,081,872)	-
Repurchase agreements with banks	2,519,660	(2,539,506)	(1,863,968)	(12,549)	(662,989)	-	-
Debt issued and other borrowed funds	15,636,867	(16,215,131)	(1,716,767)	(6,925,862)	(3,312,106)	(742,975)	(3,517,421)
Sukuk payable	1,239,181	(1,242,381)	(3,200)	(1,239,181)	-	-	-
	238,814,994	(242,542,730)	(167,608,695)	(47,380,057)	(10,160,830)	(13,875,727)	(3,517,421)
Letters of credit and guarantees	37,252,811	(37,252,811)	(11,266,646)	(6,984,841)	(16,868,636)	-	(2,132,688)
Irrevocable loan commitments	16,483,259	(16,483,264)	(9,416,617)	(3,099,614)	(3,967,033)	-	-

Emirates NBD بنك الإمارات دبي الوطني

50 RISK MANAGEMENT (continued)

As at 31 December 2010	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	18,856,725	(18,946,801)	(16,976,621)	(1,949,516)	(20,664)	-	-
Customer deposits	159,872,602	(162,906,604)	(118,641,846)	(30,340,695)	(1,675,326)	(11,990,737)	(258,000)
Islamic customer deposits	40,099,406	(40,129,406)	(28,033,246)	(6,996,012)	(5,100,148)	-	-
Repurchase agreements with banks	892,309	(924,443)	(4,017)	(12,050)	(674,548)	-	(233,828)
Debt issued and other borrowed funds	19,415,809	(20,255,444)	(136,097)	(3,780,983)	(9,368,116)	(1,879,305)	(5,090,943)
Sukuk payable	1,267,185	(1,296,720)	-	(7,970)	(1,288,750)	-	-
	240,404,036	(244,459,418)	(163,791,827)	(43,087,226)	(18,127,552)	(13,870,042)	(5,582,771)
Letters of credit and guarantees	40,761,979	(40,761,978)	(8,519,086)	(13,259,306)	(18,983,586)	-	-
Irrevocable loan commitments	9,301,142	(9,301,142)	(3,246,705)	(4,608,959)	(1,445,478)	-	-

50 RISK MANAGEMENT (continued)

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is defined as the exposure of the non-trading products of the Group to interest rates. Non-trading portfolios include positions that arise from the interest rate management of the Group's consumer and commercial banking assets and liabilities, and financial investments designated as available for sale and held to maturity. IRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on embedded optionality within certain product areas such as the incidence of prepayments in consumer loans, and from behavioral assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

In order to manage this risk optimally, IRRBB in non-trading portfolios is transferred to Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such interest rate risk positions to ensure they comply with interest rate risk limits.

Group Risk ensures that data inputs are adequately specified (commensurate with the nature and complexity of the Group's holdings) with regard to rates, maturities, re-pricing, embedded options, and other details to provide a reasonably accurate portrayal of changes in economic value or earnings. Group risk management also ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by Group ALCO.

For measuring overall interest sensitivity in the banking book, the Group conducts stress tests by simulating 200 basis point parallel shifts to the yield curve(s), and assessing the corresponding impact on its Net Interest Income.

	As at 31 December 2011		As at 31 December 2010	
	Amount AED 000	**Variance AED 000**	**Amount AED 000**	**Variance AED 000**
Rates Up 200 bp	7,329,097	1,070,197	5,962,790	706,000
Base Case	6,258,900	-	5,256,790	-
Rates Down 200 bp	5,328,846	(930,054)	4,349,198	(907,592)

The interest rate sensitivities set out in the table above are based on simplified scenarios i.e. the projections above assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net interest income of some rates changing while others remain unchanged. This effect does not incorporate actions that would be taken by Treasury or in the business units to mitigate the impact of this interest rate risk. In reality, Treasury seeks proactively to change the interest rate risk profile to minimize losses and optimize net revenues. The projections make other simplifying assumptions too, including that all positions run to maturity.

To measure and manage interest rate risk and its possible impact on Economic Value of the entity, the Group has established internal limits based on the PV01. The interest rate gaps and sensitivity tests (NII and PV01) are measured on a monthly basis by Group risk, and monitored by Group ALCO.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2011:	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	1,214,665	-	-	5,700,000	-	14,611,472	21,526,137
Due from banks	9,934,292	8,236,520	177,206	70,681	360,679	1,072,201	19,851,579
Loans and receivables	97,963,118	41,035,914	16,402,214	3,447,581	17,917,417	48,790	176,815,034
Islamic financing and investment products	5,681,959	1,349,398	2,988,603	2,537,427	13,767,892	-	26,325,279
Trading securities	21,678	-	-	18,845	107,044	441,112	588,679
Investment securities	1,025,759	2,347,351	1,863,661	1,677,981	6,686,400	2,282,575	15,883,727
Investments in associates and joint ventures	-	-	-	-	-	2,041,459	2,041,459
Positive fair value of derivatives	-	-	-	-	-	2,398,874	2,398,874
Investment properties	-	-	-	-	-	1,130,916	1,130,916
Goodwill and Intangibles	-	-	-	-	-	5,831,018	5,831,018
Customer acceptances	-	-	-	-	-	3,777,759	3,777,759
Other assets	-	-	-	-	-	5,865,935	5,865,935
Property and equipment	-	-	-	-	-	2,576,990	2,576,990
TOTAL ASSETS	115,841,471	52,969,183	21,431,684	13,452,515	38,839,432	42, 079,101	284,613,386

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

50 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2011:	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non-interest bearing AED 000	Total AED 000
LIABILITIES AND EQUITY							
Due to banks	15,503,022	4,735,765	3,618,489	287,757	-	1,960,200	26,105,233
Customer deposits	48,458,736	24,076,180	12,840,055	11,230,483	11,906,052	45,501,901	154,013,407
Islamic customer deposits	7,036,728	12,808,792	4,817,540	3,852,179	1,404,464	9,380,943	39,300,646
Repurchase agreements with banks	1,674,374	-	-	-	845,286	-	2,519,660
Debt issued and other borrowed funds	8,490,425	5,948,088	-	367,250	831,104	-	15,636,867
Sukuk payable	-	-	1,239,181	-	-	-	1,239,181
Negative fair value of derivatives	-	-	-	-	-	2,068,771	2,068,771
Customer acceptances	-	-	-	-	-	3,777,759	3,777,759
Other liabilities	-	-	-	-	-	4,970,808	4,970,808
Total equity	-	-	-	-	-	34,981,054	34,981,054
TOTAL LIABILITIES AND EQUITY	81,163,285	47,568,825	22,515,265	15,737,669	14,986,906	102,641,436	284,613,386
ON BALANCE SHEET GAP	34,678,186	5,400,358	(1,083,581)	(2,285,154)	23,852,526	(60,562,335)	-
OFF BALANCE SHEET GAP	(2,032,631)	(903,724)	82,631	103,724	2,750,000	-	-
INTEREST RATE SENSITIVITY GAP – 2011	32,645,555	4,496,634	(1,000,950)	(2,181,430)	26,602,526	(60,562,335)	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2011	32,645,555	37,142,189	36,141,239	33,959,809	60,562,335	-	-
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2010	20,428,291	7,450,630	17,013,052	23,123,517	43,793,720	-	-

50 RISK MANAGEMENT (continued)

Reputation Risk

Reputation risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. Reputation risk also includes the threat to the brand value of a financial institution.

Reputation risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. The Group has controls to ensure a positive perception of the Group and is currently formalising policy to standardize the management approach across the Group.

Regulatory/Compliance Risk

Regulatory/Compliance risk is the risk of sanctions and/or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

This risk type is considered and managed as part of operational risk. However, the Group has an independent compliance function, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes compliance within various jurisdictions where the Group operates and active monitoring and reporting on Anti Money Laundering (AML) issues. The Group has also a well embedded "Know-Your-Customer" (KYC) policy at the operational level.

Concentration Risk

Concentration risk is the risk related to any single exposure or group of exposures with the potential to produce losses large enough to threaten a bank's financial health or ability to maintain its core operations.

The Group recognizes the importance of concentration risk and strictly adheres to the individual and aggregate regulatory set percentage limits for the Group's capital base. Corporate credit follows concentration risk in areas like country, industry and individual level concentration. Consumer credit follows concentration level by employer, nationality and income segments. There are no automatic triggers for policy changes or early actions, but these concentration indicators are closely tracked and manually monitored on quarterly basis to ensure that the portfolio is free of major concentration risks.

At present there is no specific capital requirement for concentration risk.

Within the economic capital framework, concentration risk is considered implicitly. Therefore, this risk type will not be treated as a stand-alone risk and, hence, it is not quantified as a specific, separate capital charge.

Business Risk

Business risk refers to the risk of loss due to unexpected changes in the recent and / or future business volumes and margins, caused by changes in the competitive environment, general business cycle effects and macro-economic disruptions.

Business risk includes the earnings at risk perspective related to the Group's earnings and profitability, the reputation risk perspective and the Indemnity Risk perspective. The Group employs, at present, a model to quantify the potential impact resulting from business risk.

50 RISK MANAGEMENT (continued)

Capital management policies and stress testing

The Group adheres to the regulations set out by the Central bank of the United Arab Emirates which has confirmed the requirements in relation to Basel II / Pillar 2 in its circular 27/2009, dated 17 November, 2009. Further, the Group is an active member in the CBUAE working group revising the supervisory guidelines on Basel II / Pillar 2.

According to the guidelines issued by the Central Bank of the United Arab Emirates, all banks have to prepare a forward-looking capital adequacy assessment and to submit a comprehensive report annually. Whilst the Group has a robust capital adequacy assessment, monitoring and reporting process, it is pro-actively advancing its internal capital adequacy assessment framework along the lines of Basel II.

The Group's forward-looking internal capital adequacy assessment process is based on base-case assumptions, reflecting the Group's current financial budget and business expectations under conservative business as usual conditions.

The implemented internal capital adequacy assessment process is based on Economic Capital and defines adequacy as balance of capital supply, in form of available financial resources, and capital demand, in form of cushion against unexpected losses. The Group's quantification models have been subject to external scrutiny and validation, especially with a focus on Credit risk, risk concentrations and correlations.

The Group measures two levels of adequacy:

- the capability to withstand unexpected losses at a confidence level of 80% through projected net-income post dividend and provisions, and

- the capability to withstand unexpected losses at a confidence level of 99.9% through its capital base including projected net-income post dividend and provisions, with the latter measure being the key measure for the adequacy assessment.

The Economic Capital demand is based on a set of models, with

- Credit risk - Monte-Carlo simulation based Portfolio Model for credit Value at Risk,
- Market risk - Market Value at Risk complemented by Basel II / standardized approach,
- Operational risk - Basel II / Standardized Approach,
- Business risk - volatility driven parametric Value at Risk, and
- Interest rate risk / Banking book – Net interest income volatility model (complementary to PV01).

The Credit Risk quantification model is predominately based on Basel II compliant Internal Ratings and incorporates correlations and inherent concentration levels. The aggregate capital demand across risk types is the result of a Gaussian Copula model. Recognizing the importance of Islamic Finance, the models and parameter sets employed have been built to address the specific parameters of such portfolios.

The results of the internal capital adequacy assessment process, quarterly actual assessment as well as the annual multi-year forward-looking forecast are monitored against the Group's Risk Strategy.

The Group employs an Integrated Stress Testing Framework to quarterly assess the potential implications of adverse financial conditions and the development of key ratios under stressful conditions. The outcomes of the Integrated Stress Testing Framework influence the setting of the Bank's risk appetite as part of the Bank's periodical Risk Strategy review. Furthermore the outcomes support the development and adjustment of the Bank's contingency plans and planning.

50 RISK MANAGEMENT (continued)

Capital management policies and stress testing (continued)

The Integrated Stress Testing Framework encompasses

- the forward-looking assessment of economic scenarios, including potential feedback loops and second round effects,
- the measurement of sensitivities against key risk drivers and parameters, as well as
- the analysis of reverse stress tests modeling events that could cause a significant impact on the Bank, and provides by that a comprehensive analysis on the potential impact in terms of balance sheet structure, financial performance, capitalisation levels and funding profile.

The Bank's stress testing process involves key stake-holders of Group Finance, the Group's economist and the business units in order to develop economically relevant scenarios and include the views of key stakeholders. The results of the quarterly stress testing exercises are discussed at Senior Management and Board level.

In addition, the Group uses the results of the Integrated Stress Testing Framework to assess the outcome and stability of the employed Economic capital models; in order to minimize its Model Risk arising from complex capital and funding modeling.

Risk management framework and processes at Emirates Islamic Bank (EIB)

Basic philosophy, methodologies and traditional areas of EIB risk management policies are aligned with the Group's commercial banking risk models, but the unique risk challenges of Islamic banking as well as areas like Sharia non-compliance risk are considered within the ambit of EIB's risk management processes.

There is an independent risk management unit within EIB which works in conjunction with Group Risk.

Key features of risk management in EIB are summarized below:

- Independent risk management ownership at EIB level.
- Dotted line relationships with Group Risk.
- Group Risk's tools / processes being utilized and acclimatized for use by EIB.

The following work streams summarize the coordination with Group Risk:

- EIB specific risk strategy development and appetite definition within broader Group Risk Strategy.
- Corporate Risk Governance model refinement.
- Market risk framework – EIB backs out its trading exposures to Group Treasury, and therefore the Market risk control is performed centrally. Investment book exposure is maintained independently, with periodic reviews by Group Risk.
- Operational risk framework is managed locally by EIB Operational Risk Committee, and benefits from a dotted line relationship / periodic support from Group Operational Risk on policies and self assessment methodologies.
- Group liquidity risk policy adoption, in line with the Group ALCO defined framework.
- Compliance and AML Framework, in line with Group guidelines and policies with a dotted line relationship.
- Basel II Compliance: Pillar 1 - Basis of establishing risk framework. Presently, EIB is 'standardized approach' compliant, and is working towards IRB methodology through the use of Credit Rating Models built at Group Risk.
- Inputs into Group Wide Internal Capital Adequacy Assessment Process (ICAAP): Pillar 2.
- Inputs into Group Wide Stress Testing.

50 RISK MANAGEMENT (continued)

Risk management framework and processes at Emirates Islamic Bank (EIB)

Respective risk management processes are executed through regular management interaction at forums below -

- EIB Board Credit and Investment Committee (EIB BCIC): has five directors including four directors, who are also on the ENBD Board, and the fifth as ENBD CEO. The Group CRO sits as an invitee on this committee.
- EIB Asset Liability Management Committee (EIB ALCO): led by Group Risk. Members include two senior executives of Treasury and three senior executives of Group Risk.
- EIB EXCO: includes observers from Group Information Technology, Group Human Resources, Group Retail Credit as well as the Group's internal audit function.
- EIB Board Audit Committee: Has four directors including three ENBD board members and fourth as ENBD CEO.
- EIB Internal Audit: reports to the Group's internal audit function.
- EIB Treasury: EIB's money market and trading requirements are centralized with the Treasury.
- IT Security: EIB falls within security ambit of the Group.
- Recovery: EIB uses the recoveries department of the Bank to follow-up recovery of its legacy portfolio, as well as some new problematic corporate accounts.

Risk management framework and processes at Dubai Bank

(Term Group in this section refers to Dubai Bank and its subsidiaries whereas the term Bank is used for Dubai Bank only)

Dubai Bank and its subsidiaries have been acquired by Emirates NBD group in Q4, 2011 and since then the Group is in the process of adopting the Emirates NBD Group Risk Management Framework to effectively manage its Risks. The significant risk categories that the Bank is mainly exposed to are credit, market, liquidity, operational risk and reputational risk. Emirates NBD Group Risk Management framework will cover the risk governance, ownership structure and accountability for, the effective management of risk at all Dubai Bank. The extension of this framework is expected to complete during first half of 2012. (Refer to Emirates NBD group risk management section).

51 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the information available, no material adverse impact on the financial position of the group is expected to arise from legal claims as at 31 December 2011 hence no provision for any claims has been made in these financial statements.

52 EVENTS AFTER THE BALANCE SHEET DATE

In January 2012, Emirates Islamic Bank (EIB), a fully owned subsidiary of the Group, has successfully completed the issuance of US$ 500 million Sukuk Certificates, maturing in 2017 of their US$ 1,000 million Trust Certificate Issuance Programme. The programme is guaranteed by Emirates NBD rated A3 by Moody's and A+ by Fitch.

53 COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated where appropriate to conform with the presentation and accounting policies adopted in these financial statements.