EMIRATES NBD PJSC

BASEL II – PILLAR III DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2012

بنك الإمارات دبي الوطني

Emirates NBD

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OVERVIEW

In November 2009, The Central Bank of the United Arab Emirates ("CBUAE") issued guidelines for implementation of Basel II Capital Accord in the banks in UAE. As per the circular, the Standardized Approach for Credit Risk was to apply immediately with an expectation that internationally active UAE banks and larger institutions will migrate to the Foundation Internal Rating Based (FIRB) in due course. The CBUAE Basel II framework is intended to strengthen the market discipline and risk management while enhancing the safety and soundness of the banking industry in UAE.

The guidelines for Pillar 1 – Calculation of Credit Risk pertain to the Standardized Approach of Basel II only. One of the major changes brought in with the new guidelines is the ability to apply, on an asset class basis, risk weightings determined from ratings provided by External Credit Assessment Institutions ("ECAI") approved by CBUAE.

CBUAE requires the Pillar 2 – Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based, forward looking view of but not limited to Credit, Market and Operational risk Capital.

The purpose of Pillar 3 – Market Discipline is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the institution. The Pillar 3 disclosures, based on a common framework, are an effective means of informing the market about the risks faced by a bank, and provide a consistent and understandable disclosure framework that enhances transparency and comparability.

In compliance with the CBUAE guidelines and Basel II accord; these disclosures include information on the Group's risk management objectives and policies, risk assessment processes and computation, capital management and capital adequacy.

Quantitative information on risk assessment (per standardized approach) includes:

- Risk weighted assets of the Group - credit risk, market risk and operational risk
- Credit risk profile of gross credit exposure by counterparty classifications, rated/ unrated
- Profile of gross credit exposure by economic activity, geographical region and maturity
- Profile of credit risk mitigation by economic activity, geographical region and maturity
- Profile of impaired loans by economic activity and geographical region

Information on capital adequacy includes:

- Capital adequacy computation
- Capital profile – Tier I and Tier II

Introduction

The CBUAE supervises Emirates NBD ("ENBD" or the "bank") and its subsidiaries (together referred to as 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 requirements are computed at a Group level using the Basel II framework of the Basel Committee on Banking Supervision ("Basel Committee"), after applying the amendments advised by the CBUAE, within national discretion. Basel II is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

Pillar III disclosures 2012

Pillar III complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level.

Future Developments

The regulation and supervision of financial institutions is currently undergoing a period of significant change in response to the global financial crisis. Increased capital requirements and regulatory focus on Liquidity Risk have been announced by the Basel Committee in December 2010, commonly known as Basel III. These developments are being tracked by the Group and necessary dialogue conducted with the Central Bank of UAE, for timely changes to the Capital Management and Disclosure regimes.

Verification

The Pillar III Disclosures for the year 2012 have been appropriately verified internally and have been reviewed by the Group's statutory auditor, per governing standards. The auditors have concluded that disclosures in this document are adequate and are in accordance with the guidelines issued by the Central Bank of UAE.

Implementation of Basel II guidelines

The Group is compliant with 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. Details on Pillar II methodologies are contained in section – "Capital Management and Stress Testing" of this report.

Development on Advanced IRB Approaches (Credit Risk) is a multi track initiative, within the guidelines of the Central Bank and the Group is planning to complete migration to advanced approach upon publication of final CBUAE guidelines.

Group Structure

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 is listed on the Dubai Financial Market.

The Group's principal business activity is corporate, consumer, treasury and Islamic financing.

The complete listing of all direct subsidiaries, associate companies and joint ventures of Emirates NBD as of 31 December 2012 is as follows:

Subsidiaries:	Group % Shareholding	Nature of Business	Country of Incorporation	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/neither)
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.	Consolidation	Consolidation
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.	Consolidation	Consolidation
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey.	Consolidation	Consolidation
Emirates NBD Properties LLC	100	Real estate	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Loyalty Company LLC (under liquidation)	100	Customer loyalty and smart card services	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Asset Management Limited	100	Asset management	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.	Consolidation	Consolidation
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Capital (KSA) LLC	100	Investment Services	KSA.	Consolidation	Consolidation
Emirates NBD Trust Company (Jersey) Limited	100	Trust administration services	Jersey.	Consolidation	Consolidation
Dubai Bank	100	Islamic Banking	Dubai, U.A.E.	Consolidation	Consolidation
Tanfeeth LLC	100	Shared services organization	Dubai, U.A.E.	Consolidation	Consolidation
Emirates NBD Global Funding Limited	100	Medium term borrowing and money market transactions	Cayman Islands.	Consolidation	Consolidation
KSA Mortgage Company	100	Nominee Company for Mortgage Business	KSA.	Consolidation	Consolidation

Subsidiaries:	Group % Shareholding	Nature of Business	Country of Incorporation	Description of Accounting Treatment (Consolidation/ Investment Accounting)	Description of Regulatory Capital Treatment (Consolidation/ Deduction from capital/neither)
Emirates NBD Auto Financing Limited ("Repack")		SPE for asset securitization		Consolidation	Consolidation
ENBD Asset Finance Company No.1 Limited		SPE for asset securitization		Consolidation	Consolidation
ENBD Asset Finance Company No.2 Limited		SPE for asset securitization		Consolidation	Consolidation
Emirates NBD Auto Finance Limited ("APC")		SPE for asset securitization		Consolidation	Consolidation
Group Tranche of Emblem Finance Company No 2 Limited		SPE for asset securitization		Consolidation	Consolidation
Associates:					
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.	Equity Accounting	Neither - Included in gross credit exposure at carrying value
Union Properties PJSC	47.6	Real estate	Dubai, U.A.E.	Equity Accounting	Neither - Included in gross credit exposure at carrying value
Joint ventures:					
Network International LLC.	51	Card processing services	Dubai, U.A.E.	Equity Accounting	Neither - Included in gross credit exposure at carrying value

Consolidated Capital Structure

The Group's regulatory capital is calculated as per the guidelines issued by CBUAE and it comprises of:

a. **Tier 1 Capital** which is considered as the core measure of the Group's financial strength and includes share capital, reserves, retained earnings and minority interests (net of treasury shares and goodwill) and;
b. **Tier 2 Capital** which consists of qualified subordinated debts and allowed portions of revaluation reserves & general provisions.

The Bank's share capital as at 31 December 2012 comprised of 5,557,774,724 issued and fully paid shares of value AED 1 each. The detailed breakdown of the capital structure of the bank is as follows:

Particulars	**2012 AED 000**	**2011 AED 000**
Tier 1 Capital		
1. Paid up share capital/ common stock	**17,827,899**	**17,827,899**
2. Reserves		
a. Statutory reserve	**2,706,815**	**2,451,405**
b. Special reserve		**-**
c. General reserve	**11,369,945**	**10,457,042**
3. Non-controlling interest in the equity of subsidiaries	**46,269**	**46,280**
4. Innovative capital instruments		**-**
5. Other capital instruments	**4,000,000**	**4,000,000**
6. Surplus capital from insurance companies		**-**
Subtotal	**35,950,928**	**34,782,626**
Less: Deductions for regulatory calculation		
Less: Deductions from Tier 1 capital	**(5,797,193)**	**(5,877,193)**
Tier 1 Capital - Subtotal (A)	**30,153,735**	**28,905,433**
Tier 2 Capital (B)	**14,864,988**	**16,686,640**
Less: Other deductions from capitals (C)	**-**	**-**
Tier 3 Capital (D)		**-**
Total eligible capital after deductions (A+B+C+D)	**45,018,723**	**45,592,073**

Note
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.

Capital Adequacy

The Group's Capital Adequacy ratio as at 31 December 2012 was 20.64% and Tier 1 ratio was 13.83% (in 2011, the Capital Adequacy ratio was 20.53% and Tier 1 ratio 13.02%) against the regulatory requirement of minimum of 12% and 8% respectively. The Group ensures adherence to CBUAE requirements by monitoring its Capital Adequacy against higher internal limits.

Each banking subsidiary is directly regulated by its local banking supervisor which sets and monitors its capital adequacy requirements. CBUAE monitors the Capital Adequacy requirements of Emirates NBD at the Group level and also separately for Emirates Islamic Bank and Dubai Bank, subsidiaries of Emirates NBD.

CAPITAL ADEQUACY (STANDARDISED APPROACH)

	2012 Capital Charge (AED 000)	**2011 Capital Charge (AED 000)**
Capital Requirements		
Credit Risk	24,235,139	24,780,782
Market Risk	279,214	185,856
Operational Risk	1,655,455	1,682,370
Total Capital Requirements (Refer Note)	**26,169,808**	**26,649,008**
Capital Ratio		
Total for Top consolidated Group	20.64%	20.53%
Tier 1 ratio only for top consolidated group	13.83%	13.02%
Total for each significant bank subsidiary Emirates Islamic Bank	12.24%	18.30%

Note
Risk weighted assets as at 31 December 2012 are AED 218,082 million and as at 31 December 2011 are AED 222,075 million.

Standardized Approach – Credit risk & credit risk mitigation

Under Standardized Approach, all credit exposures are assessed according to the counterparty classifications and against the ECAI ratings as advised under national discretion (November 2009):

- Claims on sovereign and central banks in the GCC are risk weighted at 0%.
- Domestic currency claims on a non commercial GCC Public Sector Enterprise (PSE) are treated as claims on their sovereigns if their central bank or monetary authority treats them as such. Foreign currency claims on such a PSE are risk weighted one grade less favorable than its sovereign i.e. 20% risk weight. Claims on other foreign PSEs are risk weighted one grade less favorable than its sovereign.
- Claims on commercial companies owned by a GCC sovereign or PSEs that operate as commercial organizations are treated as claims on a corporate and risk weighted in accordance with ratings from acceptable ECAIs.
- ECAI ratings are also used to determine the capital requirements against exposures to banks and financial institutions. The group uses option 2 (one of alternative risk weight and ECAI ratings matrices as prescribed in the Basel II accord) for determining the capital requirements in line with the supervisory discretion adopted by the CBUAE.
- Claims on corporate entities are risk weighted at prescribed risk weights applicable per the latest ECAI rating of the counterparty. Claims on unrated corporate entities are risk weighted at 100%.
- Consumer banking exposure is classified into ‘Qualified Residential Mortgage’, ‘Qualified regulatory retail portfolio’ and ‘Others’; per the CBUAE Basel II guidelines and risk weighted at 35%, 75% and 100% respectively
- All other assets are classified between ‘assets under higher risk categories’ and ‘others’; and risk weighted at prescribed risk weights.
- For standardized capital adequacy calculations, the following rules are applied consistently to determine the appropriate ECAI ratings:
- Where more ECAI ratings of two acceptable rating agencies are available, the lower (worse) of the two is considered.
- Where the ECAI ratings are split evenly between all four rating agencies, the more conservative ratings are considered.
- Acceptable ECAI agencies are Moody’s, S&P, Fitch and Capital Intelligence.

Credit Risk

The total capital charge for credit risk as at 31 December 2012 is AED 24,236 million (2011: AED 24,781 million).

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH

	2012		2011	
	Gross Exposure AED 000	**Risk Weighted Assets AED 000**	**Gross Exposure AED 000**	**Risk Weighted Assets AED 000**
Claims on sovereigns	106,883,573	262,476	83,497,999	140,546
Claims on non-central government public sector entities	697,444	60,077	1,802,945	24,335
Claims on multi lateral development banks	-	-	-	-
Claims on banks	25,405,408	12,467,027	28,603,941	15,227,827
Claims on securities firms	-	-	-	-
Claims on corporate	128,029,275	117,497,635	128,020,098	119,562,776
Claims included in the regulatory retail portfolio	20,965,816	16,153,752	17,459,636	14,076,695
Claims secured by residential property	6,141,900	3,985,555	6,625,446	4,572,973
Claims secured by commercial real estate	1,970,330	1,970,330	3,290,951	3,285,465
Past due loans	45,458,900	34,573,245	38,353,834	34,022,681
Higher-risk categories	910,601	1,365,901	842,709	1,264,063
Other assets	19,719,572	13,335,202	16,804,781	12,766,691
Claims on securitized assets	-	-	-	-
Credit derivatives (Banks selling protection)	288,291	288,291	2,757,680	1,562,465
Total	**356,471,110**	**201,959,491**	**328,060,020**	**206,506,517**

Market Risk

Market risks subject to capital charge are as follows:
- Interest Rate Risk
- Foreign Exchange Risk
- Equity Exposure Risk
- Commodity Risk
- Options Risk

The scope of the charges is restricted to 'trading book' only for the interest rate risk and equity positions whilst the remaining will apply to the bank's entire positions.

The total Capital requirement for Market Risk as at 31 December 2012 is AED 279 million (2011: AED 186 million) as detailed below:

CAPITAL REQUIREMENT FOR MARKET RISK AS PER STANDARDISED APPROACH

	2012 AED 000	2011 AED 000
Interest rate risk	155,074	174,067
Equity position risk	8,594	4,806
Options risk	-	1,819
Foreign exchange risk	115,546	5,164
Total capital requirement	**279,214**	**185,856**

Operational Risk

Basel II framework outlines three methods for calculating the risk charge for operational risk – Basic Indicator, Standardized Approach and Advanced Measurement Approach. The Group presently follows the Standardized Approach.

The total capital requirement for Operational Risk as at 31 December 2012 is AED 1,655 million (2011: AED 1,682 million). This charge is computed by categorizing the Group's activities into 8 business lines (as defined by Basel II guidelines) and multiplying the line's three year average gross income by a pre defined beta factor.

RISK MANAGEMENT OBJECTIVES AND POLICIES

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 Executive Committee (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; and
- Risk management is embedded in the Group as an intrinsic process.

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; and
- 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 'Credit Concentration risk' and '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 realise 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.

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk (continued)

Credit risk management and structure (continued)

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 collaterals;

- 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. Rating grades are divided into five primary grades and five sub grades within each primary grade. All borrowers are mapped to grades based on their probability of default. Highest credit quality customers are classified under primary category 1 and have the lowest probability to default. These borrowers demonstrate a strong capacity to meet financial commitments. Good and acceptable credit quality borrowers have a good or acceptable capacity to meet financial commitments with low default risk. These borrowers are grouped under primary categories 2 and 3. Primary category 4 borrowers have a moderate default risk and demonstrate weak credit quality or are placed on watch list. Borrowers that show signs of impairment are separately classified as substandard, doubtful or loss under primary category 5. The rating grades are then mapped on a scale of 1 to 5, in line with the Central Bank of the UAE requirements for categorisation of credit exposures;

- 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; and

- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit Risk (continued)

Credit risk management and structure (continued)

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; and

- 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.

Gross Credit Exposures as per different Currency's are listed below:

GROSS CREDIT EXPOSURE – CURRENCY CLASSIFICATION

31 DECEMBER 2012

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
Foreign Currency	38,113,969	8,997,319	27,321,597	74,432,885	623,113	3,315,671	17,386,862	21,325,646	95,758,531
AED	205,474,384	1,464,865	36,732,463	243,671,712	1,703,236	511,842	14,825,789	17,040,867	260,712,579
Total	**243,588,353**	**10,462,184**	**64,054,060**	**318,104,597**	**2,326,349**	**3,827,513**	**32,212,651**	**38,366,513**	**356,471,110**

31 DECEMBER 2011

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
Foreign Currency	35,995,952	9,521,023	24,784,785	70,301,760	785,037	3,070,190	15,535,546	19,390,773	89,692,533
AED	185,087,042	2,285,052	32,710,086	220,082,180	3,701,724	551,044	14,032,539	18,285,307	238,367,487
Total	**221,082,994**	**11,806,075**	**57,494,871**	**290,383,940**	**4,486,761**	**3,621,234**	**29,568,085**	**37,676,080**	**328,060,020**

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Trading securities, Investment securities [net of Debt Securities], Investment properties, Property & Equipment & Other Assets.

The group's credit exposure by Geography and Economic activity, both funded and non-funded is detailed below:

GROSS CREDIT EXPOSURE BY GEOGRAPHY

31 DECEMBER 2012

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
United Arab Emirates	232,468,931	5,315,393	37,242,579	**275,026,903**	1,872,622	1,446,300	27,329,296	**30,648,218**	**305,675,121**
GCC excluding UAE	6,205,446	2,582,397	18,934,991	**27,722,834**	409,091	358,459	4,450,181	**5,217,731**	**32,940,565**
Arab League (excluding GCC)	9,958	128,496	1,653,134	**1,791,588**	-	-	13,054	**13,054**	**1,804,642**
Asia	1,593,037	1,116,781	1,253,946	**3,963,764**	20,733	33,436	170,884	**225,053**	**4,188,817**
Africa	36	-	62,896	**62,932**	-	-	78	**78**	**63,010**
North America	788,326	245,567	797,528	**1,831,421**	-	162,438	6,279	**168,717**	**2,000,138**
Europe	2,522,619	1,073,550	3,396,788	**6,992,957**	23,903	1,826,880	242,687	**2,093,470**	**9,086,427**
Australia	-	-	5,252	**5,252**	-	-	95	**95**	**5,347**
Others	-	-	706,946	**706,946**	-	-	97	**97**	**707,043**
Total	**243,588,353**	**10,462,184**	**64,054,060**	**318,104,597**	**2,326,349**	**3,827,513**	**32,212,651**	**38,366,513**	**356,471,110**

GROSS CREDIT EXPOSURE BY GEOGRAPHY (continued)

31 DECEMBER 2011

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
United Arab Emirates	210,004,311	6,622,609	38,103,176	**254,730,096**	4,196,400	1,995,596	25,989,816	**32,181,812**	**286,911,908**
GCC excluding UAE	7,370,421	2,840,850	5,736,983	**15,948,254**	289,630	55,972	1,837,736	**2,183,338**	**18,131,592**
Arab League (excluding GCC)	38,989	-	447,243	**486,232**	-	-	272,375	**272,375**	**758,607**
Asia	1,163,406	358,840	2,087,966	**3,610,212**	672	39,479	1,165,092	**1,205,243**	**4,815,455**
Africa	18,395	-	2,140	**20,535**	-	-	7,521	**7,521**	**28,056**
North America	870,337	283,290	2,527,530	**3,681,157**	37	158,108	8,548	**166,693**	**3,847,850**
Europe	1,305,361	1,700,486	6,317,098	**9,322,945**	22	1,372,079	247,709	**1,619,810**	**10,942,755**
Australia	-	-	58	**58**	-	-	67	**67**	**125**
Others	311,774	-	2,272,677	**2,584,451**	-	-	39,221	**39,221**	**2,623,672**
Total	**221,082,994**	**11,806,075**	**57,494,871**	**290,383,940**	**4,486,761**	**3,621,234**	**29,568,085**	**37,676,080**	**328,060,020**

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Trading securities, Investment securities [net of Debt Securities], Investment properties, Property & Equipment & Other Assets.

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY

31 DECEMBER 2012

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
Agriculture, fishing & related activities	43,638	-	-	**43,638**	-	-	23,690	**23,690**	**67,328**
Crude, oil gas, mining & quarrying	231,871	148,903	24,256	**405,030**	36,730	-	12,066	**48,796**	**453,826**
Manufacturing	6,866,981	430,116	32,712	**7,329,809**	53,742	-	1,850,725	**1,904,467**	**9,234,276**
Electricity & Water	-	-	-	**-**	-	-	100,225	**100,225**	**100,225**
Construction	7,790,343	270,258	298,673	**8,359,274**	611,468	-	6,475,027	**7,086,495**	**15,445,769**
Trade	8,534,671	-	-	**8,534,671**	168,054	-	5,994,746	**6,162,800**	**14,697,471**
Transport, Storage & Communication	5,031,364	523,336	58,079	**5,612,779**	284,851	-	401,424	**686,275**	**6,299,054**
Financial Institutions	32,762,690	3,530,533	52,751,232	**89,044,455**	29,604	2,881,201	6,916,060	**9,826,865**	**98,871,320**
Real Estate	30,316,827	523,549	1,525,285	**32,365,661**	-	-	523,784	**523,784**	**32,889,445**
Services	20,041,798	1,417,011	344,897	**21,803,706**	195,913	-	3,118,478	**3,314,391**	**25,118,097**
Government	75,711,172	3,106,243	229,347	**79,046,762**	-	-	3,416	**3,416**	**79,050,178**
Personal – Retail	31,389,472	-	-	**31,389,472**	14,948	-	-	**14,948**	**31,404,420**
Personal – Corporate	10,439,982	-	-	**10,439,982**	684,862	-	751,567	**1,436,429**	**11,876,411**
All Others	6,943,121	512,235	8,789,579	**16,244,935**	246,177	946,312	6,041,443	**7,233,932**	**23,478,867**
Add: Grossing up of interest in suspense	7,484,423	-	-	**7,484,423**	-	-	-	**-**	**7,484,423**
Total	**243,588,353**	**10,462,184**	**64,054,060**	**318,104,597**	**2,326,349**	**3,827,513**	**32,212,651**	**38,366,513**	**356,471,110**

GROSS CREDIT EXPOSURE BY ECONOMIC ACTIVITY (Continued)

31 DECEMBER 2011

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
Agriculture, fishing & related activities	21,572	-	-	**21,572**	3,482	-	28,196	**31,678**	**53,250**
Crude, oil gas, mining & quarrying	255,212	176,388	16,811	**448,411**	18,400	-	624,615	**643,015**	**1,091,426**
Manufacturing	6,754,728	399,837	26,306	**7,180,871**	209,772	-	189,506	**399,278**	**7,580,149**
Electricity & Water	-	-	-	**-**	48,000	-	331,730	**379,730**	**379,730**
Construction	7,916,022	677,748	181,742	**8,775,512**	580,817	-	2,128,965	**2,709,782**	**11,485,294**
Trade	8,096,247	-	-	**8,096,247**	144,407	-	1,723,813	**1,868,220**	**9,964,467**
Transport, Storage & Communication	4,875,565	743,316	16,328	**5,635,209**	4,089	-	990,440	**994,529**	**6,629,738**
Financial Institutions	31,399,148	4,420,361	54,408,812	**90,228,321**	110,832	2,892,585	6,161,018	**9,164,435**	**99,392,756**
Real Estate	33,881,489	86,497	2,344,069	**36,312,055**	1,049,761	-	1,288,575	**2,338,336**	**38,650,391**
Services	17,975,922	1,442,950	422,607	**19,841,479**	792,744	-	1,845,692	**2,638,436**	**22,479,915**
Government	60,872,092	3,253,617	61,295	**64,187,004**	120,825	-	504,487	**625,312**	**64,812,316**
Personal – Retail	27,879,192	-	-	**27,879,192**	-	-	1,319,023	**1,319,023**	**29,198,215**
Personal – Corporate	11,097,911	-	-	**11,097,911**	230,858	-	5,528	**236,386**	**11,334,297**
All Others	5,799,879	605,361	13,662	**6,418,902**	1,172,774	728,649	12,426,497	**14,327,920**	**20,746,822**
Add: Grossing up of interest in suspense	4,258,015	-	3,239	**4,261,254**	-	-	-	**-**	**4,261,254**
Total	**221,082,994**	**11,806,075**	**57,494,871**	**290,383,940**	**4,486,761**	**3,621,234**	**29,568,085**	**37,676,080**	**328,060,020**

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Trading securities, Investment securities [net of Debt Securities], Investment properties, Property & Equipment & Other Assets.

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk (Continued)

Credit Risk Monitoring:

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, assessment 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.

Development and Testing for Advanced Models (BII - IRB Approach)

The Group has, over the years, committed to enhanced Risk Management tools and practices, as a strategic business advantage. Credit Risk management is at the forefront of such developments, and following paragraphs describe the present state of play.

Emirates NBD Masterscale

The Group has implemented a Masterscale comprising of 25 performing and 3 non performing grades. The rating Masterscale is used across the Group and provides a consistent view on credit risks across different counterparties and products i.e. retail, corporate, small and medium enterprises, sovereigns, banks and financial institutions.

Corporate and SME Models

The Group has developed internal rating models to determine the probability of default for Corporate and SME portfolios. The first generation models were developed using expert panel approach and utilized the knowledge of credit/business experts that had experience of the customer/industry type being modeled. During the course of 2012 second generation models have been developed and approved. These models combine quantitative & qualitative aspect of the borrower to arrive at the standalone rating. A comprehensive early warning framework ensures that all market based warning signals are picked up to initiate account specific actions in a timely manner.

Financial Institutions Models

The Group has developed internal models for its Banks and Financial Institutions portfolios. These models have been developed using the shadow ratings approach. Group's internal processes and procedures have been aligned to ensure that deterioration in credit quality of the counterparties is picked up proactively through early warning signals monitoring which is an integral part of the internal rating model.

RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit Risk (Continued)

Retail Scorecards

Retail credit underwriting continues to evolve on a scientific basis with the introduction of application, behavior and collection scorecards. Loss Given Default (LGD) and Exposure at Default (EAD) scorecards have also been developed and implemented by the Group. Application scorecards are used to approve or reject customers while behavior scorecards are used to enhance cross-selling campaigns, devise collection strategies and carry out portfolio management actions. The Group introduced risk based pricing in 2010 which has gone through further refinements during the year.

Model Governance and Validation

Group Risk Model Governance standards govern the process through which risk rating systems are initially developed, judged fit for purpose, approved and implemented; the conditions under which analytical risk model outcomes can be overridden by decision-takers; and the process of model performance monitoring and reporting. The emphasis here is on an effective dialogue between business lines and risk management, suitable independence of decision takers, and a good understanding and robust challenge on the part of senior management. Like other facets of risk management, analytical risk rating systems are not static and are subject to review and modification to adapt to the changing environment and the greater availability and quality of data.

The Group enforces a comprehensive Risk Model Governance for all its Risk Models; this includes but is not limited to Credit Risk Models. In order to ensure an independent review of its models, performance of all models is regularly monitored by teams independent of the model development team. The Group employs competent third party validating agencies to carry out independent validations at regular frequencies.

Group credit risk mitigation strategy:

The Group operates within:

- Exposure ceilings imposed by the Board / BCIC / MCIC / Management delegated limits;
- Country limits approved by the Board / BCIC / MCIC / Management delegated limits; and
- 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.

The Gross Credit Exposures as per Standardized Approach with the effect of CRM as detailed below:

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH

31 DECEMBER 2012

	On Balance Sheet	Off Balance Sheet			Credit Risk Mitigation (CRM)		
	Gross Outstanding	**Net Exposure after Credit Conversion Factors (CCF)**	**Total Gross Exposure**	**Exposure Before CRM**	**CRM**	**After CRM**	**Risk Weighted Assets**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Claims on sovereigns	106,882,525	1,048	106,883,573	106,883,573	-	106,883,573	262,476
Claims on non-central government public sector entities	602,251	95,193	697,444	697,444	-	697,444	60,077
Claims on multi lateral development banks	-	-	-	-	-	-	-
Claims on banks	20,049,155	5,356,253	25,405,408	25,405,408	-	25,405,408	12,467,027
Claims on securities firms	-	-	-	-	-	-	-
Claims on corporate	96,399,580	31,629,695	128,029,275	128,029,275	9,756,462	118,272,813	117,497,635
Claims included in the regulatory retail portfolio	20,309,331	656,485	20,965,816	20,965,816	445,703	20,520,113	16,153,752
Claims secured by residential property	6,141,900	-	6,141,900	6,141,900	-	6,141,900	3,985,555
Claims secured by commercial real estate	1,970,330	-	1,970,330	1,970,330	-	1,970,330	1,970,330
Past due loans	45,119,352	339,548	45,458,900	24,979,295	-	24,979,295	34,573,245
Higher-risk categories	910,601	-	910,601	910,601	-	910,601	1,365,901
Other assets	19,719,572	-	19,719,572	19,719,572	-	19,719,572	13,335,202
Claims on securitized assets	-	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	288,291	288,291	288,291	-	288,291	288,291
Total	**318,104,597**	**38,366,513**	**356,471,110**	**335,991,505**	**10,202,165**	**325,789,340**	**201,959,491**

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (continued)

31 DECEMBER 2011

	On Balance Sheet	Off Balance Sheet			Credit Risk Mitigation (CRM)		
	Gross Outstanding	Net Exposure after Credit Conversion Factors (CCF)	Total Gross Exposure	Exposure Before CRM	CRM	After CRM	Risk Weighted Assets
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Claims on sovereigns	83,497,505	494	83,497,999	83,497,999	-	83,497,999	140,546
Claims on non-central government public sector entities	1,663,311	139,634	1,802,945	1,802,945	-	1,802,945	24,335
Claims on multi lateral development banks	-	-	-	-	-	-	-
Claims on banks	22,529,383	6,074,558	28,603,941	28,569,689	-	28,569,689	15,227,827
Claims on securities firms	-	-	-	-	-	-	-
Claims on corporate	100,888,976	27,131,122	128,020,098	127,120,014	6,886,564	120,233,450	119,562,776
Claims included in the regulatory retail portfolio	15,919,074	1,540,562	17,459,636	17,459,636	306,781	17,152,855	14,076,695
Claims secured by residential property	6,593,416	32,030	6,625,446	6,625,446	1,781	6,623,665	4,572,973
Claims secured by commercial real estate	3,290,951	-	3,290,951	3,290,951	5,487	3,285,464	3,285,465
Past due loans	38,353,834	-	38,353,834	24,950,734	-	24,950,734	34,022,681
Higher-risk categories	842,709	-	842,709	842,709	-	842,709	1,264,063
Other assets	16,804,781	-	16,804,781	16,804,781	-	16,804,781	12,766,691
Claims on securitized assets	-	-	-	-	-	-	-
Credit derivatives (Banks selling protection)		2,757,680	2,757,680	2,757,680	-	2,757,680	1,562,465
Total	**290,383,940**	**37,676,080**	**328,060,020**	**313,722,584**	**7,200,613**	**306,521,971**	**206,506,517**

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (RATED/ UNRATED)

31 DECEMBER 2012

	Rated	Unrated	Total Gross Exposure	Exposure Before CRM	After CRM	Risk Weighted Assets
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Claims on sovereigns	1,045,036	105,838,537	106,883,573	106,883,573	106,883,573	262,476
Claims on non-central government public sector entities	-	697,444	697,444	697,444	697,444	60,077
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	20,049,085	5,356,323	25,405,408	25,405,408	25,405,408	12,467,027
Claims on securities firms	-	-	-	-	-	-
Claims on corporate	1,309,189	126,720,086	128,029,275	128,029,275	118,272,813	117,497,635
Claims included in the regulatory retail portfolio	-	20,965,816	20,965,816	20,965,816	20,520,113	16,153,752
Claims secured by residential property	-	6,141,900	6,141,900	6,141,900	6,141,900	3,985,555
Claims secured by commercial real estate	-	1,970,330	1,970,330	1,970,330	1,970,330	1,970,330
Past due loans	-	45,458,900	45,458,900	24,979,295	24,979,295	34,573,245
Higher-risk categories	-	910,601	910,601	910,601	910,601	1,365,901
Other assets	-	19,719,572	19,719,572	19,719,572	19,719,572	13,335,202
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	288,291	288,291	288,291	288,291	288,291
Total	**22,403,310**	**334,067,800**	**356,471,110**	**335,991,505**	**325,789,340**	**201,959,491**

Emirates NBD بنك الإمارات دبي الوطني

GROSS CREDIT EXPOSURE AS PER STANDARDISED APPROACH (RATED/ UNRATED) (continued)

31 DECEMBER 2011

	Rated	Unrated	Total Gross Exposure	Exposure Before CRM	After CRM	Risk Weighted Assets
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Claims on sovereigns	3,376,525	80,121,474	83,497,999	83,497,999	83,497,999	140,546
Claims on non-central government public sector entities	164,621	1,638,324	1,802,945	1,802,945	1,802,945	24,335
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	24,097,623	4,506,318	28,603,941	28,569,689	28,569,689	15,227,827
Claims on securities firms	-	-	-	-	-	-
Claims on corporate	3,890,265	124,129,833	128,020,098	127,120,014	120,233,450	119,562,776
Claims included in the regulatory retail portfolio	-	17,459,636	17,459,636	17,459,636	17,152,855	14,076,695
Claims secured by residential property	-	6,625,446	6,625,446	6,625,446	6,623,665	4,572,973
Claims secured by commercial real estate	-	3,290,951	3,290,951	3,290,951	3,285,464	3,285,465
Past due loans	-	38,353,834	38,353,834	24,950,734	24,950,734	34,022,681
Higher-risk categories	-	842,709	842,709	842,709	842,709	1,264,063
Other assets	-	16,804,781	16,804,781	16,804,781	16,804,781	12,766,691
Claims on securitized assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	2,574,055	183,625	2,757,680	2,757,680	2,757,680	1,562,465
Total	**34,103,089**	**293,956,931**	**328,060,020**	**313,722,584**	**306,521,971**	**206,506,517**

CREDIT RISK MITIGATION AS PER STANDARDISED APPROACH

	2012		2011	
	Gross credit exposure (AED 000)	Risk weighted assets (AED 000)	Gross credit exposure (AED 000)	Risk weighted assets (AED 000)
Gross exposure prior to credit risk mitigation	356,471,110	232,641,261	328,060,020	228,044,566
Exposure covered by on-balance sheet netting	(20,479,605)	(20,479,605)	(14,337,436)	(14,337,436)
Exposure covered by eligible financial collateral	(9,653,923)	(9,653,923)	(7,049,883)	(7,049,883)
Exposures covered by Guarantees	(548,242)	(548,242)	(150,730)	(150,730)
Net exposure after credit risk mitigation	**325,789,340**	**201,959,491**	**306,521,971**	**206,506,517**

RISK MANAGEMENT OBJECTIVES AND POLICIES (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 as normal loans.

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; or
- 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.

Assessment of specific impairment

Corporate loans: 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. Credit exposures are classified by exercising mature judgment in line with Central Bank regulations and IFRS requirements. Specific impairment is assessed when it 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.

Risk Management (Continued)

Impairment assessment (Continued)

The following general guidelines are followed for account classification into non-impaired and impaired:

- Loans and advances which bear normal banking risk, whereby information available to the bank assure repayment as agreed are classified as normal loans;

- Loans and advances which show some weaknesses in the borrower's financial condition and credit-worthiness, requiring more than normal attention but not allocation of provisions are classified as Watch-list loans;

- Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general, these are credit exposures where agreed payments of principal and/or interest are more than 90 consecutive days in arrears;

- Those accounts where full recovery of interest and principal seems doubtful on the basis of information available, leading generally to a loss of part of these loans are classified as "Doubtful accounts"; and

- Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

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.

Assessment of collective impairment

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

Risk Management (Continued)

Collective impairment provisions for the consumer portfolios are determined based on a flow rates methodology. Flow rates for various consumer loans 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.

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

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.

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.

The details of impaired loans by Geography and Economic Activity are as below:
IMPAIRED LOANS BY ECONOMIC ACTIVITY

31 DECEMBER 2012

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments			
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs	Interest in Suspense	Total Impaired Assets
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Agriculture, fishing & related activities	-	-	-	-	-	-	-	-	-
Crude, oil gas, mining & quarrying	-	37,954	37,954	36,076	-	-	2,409	1,878	-
Manufacturing	-	1,241,250	1,241,250	607,254	-	-	5,223	203,420	430,576
Electricity & Water	-	-	-	-	-	-	-	-	-
Construction	-	3,248,719	3,248,719	532,622	-	-	59,532	187,707	2,528,390
Trade	-	910,962	910,962	528,892	-	-	15,835	142,184	239,886
Transport, Storage & Communication	-	38,651	38,651	28,901	-	-	-	7,712	2,038
Financial Institutions	-	17,531,674	17,531,674	3,892,507	-	-	257,167	572,303	13,066,864
Real Estate	-	5,891,748	5,891,748	1,111,341	-	-	65,786	486,135	4,294,272
Services	-	1,926,107	1,926,107	669,351	-	-	372	155,284	1,101,472
Government	-	-	-	-	-	-	-	-	-
Retail/ Consumer Banking	-	12,966,258	12,966,258	5,133,060	-	-	25,048	5,599,512	2,233,686
All Others	-	1,326,029	1,326,029	455,178	-	73,918	181,270	128,288	742,563
Total	**-**	**45,119,352**	**45,119,352**	**12,995,182**	**3,600,001**	**73,918**	**612,642**	**7,484,423**	**24,639,747**

IMPAIRED LOANS BY ECONOMIC ACTIVITY (continued)

31 DECEMBER 2011

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments		Interest in Suspense	Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs		
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Agriculture, fishing & related activities	-	-	-	-	-	-	-	-	-
Crude, oil gas, mining & quarrying	-	36,379	36,379	9,076	-	-	320	186	27,117
Manufacturing	-	1,263,567	1,263,567	482,858	-	-	264	137,106	643,603
Electricity & Water	-	1,934	1,934	-	-	-	-	-	1,934
Construction	-	2,502,683	2,502,683	423,765	-	-	-	103,013	1,975,905
Trade	-	869,850	869,850	240,632	-	-	78	101,818	527,400
Transport, Storage & Communication	-	74,170	74,170	28,995	-	-	3,691	6,563	38,612
Financial Institutions	-	15,931,867	15,931,867	2,179,102	-	-	167,000	276,885	13,475,880
Real Estate	-	2,167,934	2,167,934	258,989	-	-	-	109,783	1,799,162
Services	-	4,162,198	4,162,198	546,886	-	-	3,139	73,958	3,541,354
Government	-	-	-	-	-	-	-	-	-
Retail/ Consumer Banking	-	10,281,622	10,281,622	4,423,191	-	-	5,028	3,229,063	2,629,368
All Others	-	1,061,630	1,061,630	551,591	-	14,468	127,404	219,640	290,399
Total	**-**	**38,353,834**	**38,353,834**	**9,145,085**	**3,751,933**	**14,468**	**306,924**	**4,258,015**	**24,950,734**

IMPAIRED LOANS BY GEOGRAPHY

31 DECEMBER 2012

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments		Interest in Suspense	Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs		
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
United Arab Emirates	-	43,758,619	43,758,619	12,108,217	-	73,918	606,651	7,259,702	24,390,700
GCC excluding UAE	-	1,274,461	1,274,461	860,093	-	-	-	165,986	248,382
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-
Asia	-	76,495	76,495	19,430	-	-	5,915	56,400	665
Africa	-	3,443	3,443	3,443	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	-	6,334	6,334	3,999	-	-	76	2,335	-
Australia	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**45,119,352**	**45,119,352**	**12,995,182**	**3,600,001**	**73,918**	**612,642**	**7,484,423**	**24,639,747**

IMPAIRED LOANS BY GEOGRAPHY (continued)

31 DECEMBER 2011

	Overdue (Gross of Interest in Suspense/ Provisions)			Provisions		Adjustments		Interest in Suspense	Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General	Write-offs	Write-backs		
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
United Arab Emirates	-	36,589,915	36,589,915	8,136,153	-	14,468	306,924	4,096,219	24,357,543
GCC excluding UAE	-	1,345,737	1,345,737	741,782	-	-	-	111,913	492,042
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-
Asia	-	67,831	67,831	19,432	-	-	-	47,548	851
Africa	-	-	-	-	-	-	-	-	-
North America	-	91,813	91,813	91,813	-	-	-	-	-
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	-	258,538	258,538	155,905	-	-	-	2,335	100,298
Australia	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	**-**	**38,353,834**	**38,353,834**	**9,145,085**	**3,751,933**	**14,468**	**306,924**	**4,258,015**	**24,950,734**

RECONCILIATION OF CHANGES IN PROVISION FOR IMPAIRED LOANS

	2012 AED 000	2011 AED 000
Balance of provision for impaired loans as at 1 January	12,897,018	8,322,060
Add: Charge for the year		
Specific Provisions	4,618,790	3,442,362
General Provisions	306,668	2,030,913
Less: Write-off of impaired loans to income statement	(73,918)	(14,468)
Less: Recovery of loans previously written off	(612,642)	(306,924)
Less: Write back of loan loss provisions	(458,600)	(471,616)
Less: Adjustments of loan loss provisions	(82,133)	(105,309)
Balance of provision for impaired loans as at 31 December	16,595,183	12,897,018

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk

Market risk is the potential for adverse changes in the market value of portfolios and positions in financial instruments resulting from, changes in market variables such as foreign exchange rates, interest rates, equity prices, commodity prices and their respective implied volatilities and correlations.

The Group separates exposures to market risk into trading and non-trading portfolios. Trading portfolios include those positions held with trading intent arising from market-making, position-taking and other marked-to-market positions so designated. Non-trading portfolios include positions other than those with trading intent 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. The Group transacts in a diverse set of financial instruments, both physical and derivatives, that include securities, currencies, commodities and equities.

As part of the Group's enterprise-wide risk management framework, extensive governance and management processes are applied in the market risk taking activities.

Market risk management is designed to mitigate the amount of potential losses on open positions which may arise due to adverse changes in market variables. Included in the governance framework are:

- Oversight by senior management and Board committees such as Group Asset Liability Management Committee (ALCO), Board Risk Committee (BRC) and Board Credit and Investment Committee (BCIC);
- Independent valuation of trading positions and measurement of market risk;
- A comprehensive set of policies;
- Monitoring a wide range of risk metrics appropriate for the respective trading portfolios such as Value-at-Risk (VaR) and risk sensitivities; and
- Annual approval by the Board of a set of risk limits with appropriate monitoring, reporting and limit excess escalation procedures.

The Group uses appropriate and independently validated market models for the valuation and risk measurement of its vanilla positions and liquid structured products; and receives regular market information from independent common market data providers in order to measure and monitor market risk. Group Market Risk has well-defined policies, procedures and trading limits in place to ensure oversight of Treasury's 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.

Group Market Risk is a function independent of business/risk taking activities, and reports to the Chief Risk Officer (CRO). All market risk limits are approved by BCIC and delegated through Group 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 Group Market Risk before being proposed to ALCO for endorsement and the BCIC for approval. This ensures that all limits are approved and delegated in close consultation and concurrence with Group Market Risk. All limit breaches are recorded by Group Market Risk and reported to the CRO, Head of Group Treasury and the responsible Desk Head and, where appropriate, to BCIC. 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 (continued)

Group 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. Depending on the trading portfolio and as appropriate, Group Market Risk uses metrics include Stop-Loss limits, interest rate sensitivity measures such as Present Value of 1 bps shift in interest rates (PV01) and Dollar/Dirham Value of 1 bps shift in interest rates (DV01), open position measures such as Net Open Position (NOP), futures contracts, and other notional measures, option premium limits, risk sensitivity metrics such as the option Greeks, concentration and liquidity where appropriate, and VaR, both Total and by Asset class.

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

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 both spot and forward foreign exchange instruments.

Trading Book oversight by Group Market Risk

The Group has a conservative trading philosophy, which is governed by well defined policies, processes and a market risk limit structure. All new products are only authorized and approved by senior management if adequate infrastructure has been assured such as independently validated pricing and risk models with appropriate market rate inputs to the models and appropriate Treasury operations procedures to settle the product. Policies are reviewed and revised, if required, and presented to the BRC for approval on a regular basis.. Trading risk limits are reviewed annually and approved by the Board. Treasury is responsible for managing trading risk exposure within the approved trading risk limits. These limits are set appropriate to the revenue targets and the balance sheet of the Bank and in line with the Bank's risk appetite. Systems and procedures are in place to monitor and report related exposure on a daily basis.

To capture the multi-dimensional aspects of market risk, a number of metrics, including VaR as an overall risk measure and a number of risk measures appropriate to the trading portfolios are used. The Bank has upgraded the VaR system for Value at Risk calculations, scenario building, and stress testing. The VaR is calculated for specific asset classes and in Total using the Historical Simulation method and measured at the 99% confidence level over a specified horizon (holding period).

The VaR system has been configured to highlight the independent impact of the market risk factors that contributes to total VaR. Thus the Bank measures VaR by the following risk types:

- Interest rate VaR
- Foreign Exchange VaR
- Equity VaR
- Commodity VaR
- Total VaR

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk (continued)

The year-end VaR numbers reported below have been derived using the following configuration:

- Confidence Level : 99%
- Holding Period : 1 day
- Methodology: Historical Simulation using 2 years of historical data

Total Value at Risk	**2012 AED 000**	**2011 AED 000**
Average	6,096	5,692
Minimum	987	1,055
Maximum	15,290	21,115
Balance as at 31 December	3,293	1,123

In the current year, the Group implemented a change in the methodology used for the VaR measure from Monte Carlo VaR methodology (MC VaR) to Historical Simulation methodology VaR (HS VaR). This change in methodology will provide a better ability to understand the sources of market risk for the trading portfolio, provide more appropriate stress scenarios and result in better risk management of market risk exposures.

Comparable VAR numbers for 2011 under the two methodologies is reflected in the table below:

Total Value at Risk	**2011 HS VaR AED 000**	**2011 MC VaR AED 000**
Average	5,692	5,077
Minimum	1,055	72
Maximum	21,115	22,236
As at 31 December	1,123	3,546

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 all banking book positions that arise from the interest rate on 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.

Market Risk (continued)

Interest Rate Risk in the Banking Book (continued)

Liquidity & ALM Function in Group Finance 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. Liquidity & ALM Function in Group Finance 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 2012		**As at 31 December 2011**	
	Amount AED 000	**Variance AED 000**	**Amount AED 000**	**Variance AED 000**
Rates Up 200 bp	6,706,644	909,754	7,329,097	1,070,197
Base Case	5,796,890	-	6,258,900	-
Rates Down 200 bp	5,359,084	(437,805)	5,328,846	(930,054)

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 practice, 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 Liquidity & ALM Function in Group Finance, and monitored by Group ALCO.

Equity Position Risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The capital requirement for equity position risk as at 31 December 2012 is AED 8.59 million (as at 31 December 2011 is AED 4.81 million).

As at 31 December 2012, the bank's total equity investment portfolio in the banking book amounted to AED 1,881 million (as at 31 December 2011 is AED 2,278 million), of which 46% represents quoted investments. For details of the accounting policies and valuation methodology, please refer to NOTE 3 (e) of the Consolidated Financial Statements under 'Significant Accounting Policies'.

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK

31 DECEMBER 2012

(a) Quantitative Details of Equity Position

AED 000

Type	FS Category (AFS/FVPL)	Basel II Category (Banking book)	Current Year Publicly Traded	Current Year Privately Held
Equities	1,881,339	1,881,339	486,275	1,395,064
Collective investment schemes				
Any other investment				
Total	**1,881,339**	**1,881,339**	**486,275**	**1,395,064**

(b) Realized, Unrealized & Latent revaluation gains/ (losses) during the year

Particulars	AED 000 AFS
Gains (Losses)	
Realized gains (losses) from sale and liquidations	360,779
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	322,511
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet of profit and loss account	
Total	**683,290**

(c) Items in (b) above included in Tier I/ Tier II Capital

Tier Capital	AED 000 Amount
Amount included in Tier I capital (realized gains)	360,779
Amount included in Tier II capital (unrealised gains)	145,130
Total	**505,909**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2012

(d) Capital requirements by Equity groupings

AED 000

Grouping	Amount
Investments in associates and joint ventures	249,619
Investment Securities	225,761
Held for Trading	5,371
Total capital requirement	**480,751**

(e) Equity Investments (Quoted/ Unquoted) - Including private equity investments

AED 000

Particulars	Banking Book (Per Basel II Definition)	Trading Book (Per Basel II Definition)
Quoted	871,897	44,761
Unquoted	1,009,442	-
Total	**1,881,339**	**44,761**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2011

(a) Quantitative Details of Equity Position

Type	**FS Category (AFS/ FVPL)**	**Basel II Category (Banking book)**	**Current Year (AED 000) Publicly Traded**	**Current Year (AED 000) Privately Held**
Equities	2,278,117	2,278,117	332,117	1,946,000
Collective investment schemes				
Any other investment				
Total	**2,278,117**	**2,278,117**	**332,117**	**1,946,000**

(b) Realized, Unrealized & Latent revaluation gains/ (losses) during the year

Particulars	**AED 000 AFS**
Gains (Losses)	
Realized gains (losses) from sale and liquidations	178,433
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	125,228
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet of profit and loss account	
Total	**303,661**

(c) Items in (b) above included in Tier I/ Tier II Capital

Tier Capital	**AED 000 Amount**
Amount included in Tier I capital (realized gains)	178,433
Amount included in Tier II capital (unrealised gains)	56,353
Total	**234,786**

QUANTITATIVE DISCLOSURES FOR EQUITY POSITION IN THE BANKING BOOK (Continued)

31 DECEMBER 2011

(d) Capital requirements by Equity groupings

Grouping	**AED 000 Amount**
Investments in associates and joint ventures	244,975
Investment Securities	273,374
Held for Trading	4,806
Total capital requirement	**523,155**

(e) Equity Investments (Quoted/ Unquoted) - Including private equity investments

Particulars	**Banking Book (Per Basel II Definition)**	**Trading Book (Per Basel II Definition)** (AED 000)
Quoted	1,257,945	82,664
Unquoted	1,020,172	8,870
Total	**2,278,117**	**91,534**

Foreign Exchange Risk

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.

The capital requirement for foreign exchange risk as at 31 December 2012 is AED 115.5 million (as at 31 December 2011 is AED 5.16 million).

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 EXCO 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:

- Assessment of any operational risk of a new or amended product or process prior to its implementation. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives;

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

- Identification of inherent and residual risks across all units and entities of the Group, assessment of control efficiencies and estimation of probabilities and potential impact of the operational risks. The identified risks are monitored and reassessed frequently by the line management;

- 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; and

- 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 and Wealth Management), and is the central authority for identifying and managing such risk. Liquidity and ALM Function in Group Finance is responsible for liquidity measurement, monitoring and control and reports risk exposures independently to the Group ALCO.

Objectives and Governance structure (continued)

In case of Operating subsidiaries and overseas branches that are subject to additional liquidity limits imposed by its local regulator, the subsidiary or the overseas branch head retains the responsibility for managing its overall liquidity within the regulatory limit, in coordination with the Group treasury. Group treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits.

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.

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 Liquidity and ALM Function in Group Finance 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 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.

Liquidity risk monitoring (continued)

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.

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 consisting of high credit quality (minimum AA-) investment securities and Central Bank CDs, 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 Liquidity and ALM Function in Group Finance in conjunction with Group ALCO 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.

The following table lists the Group's exposures by Residual Maturity:

31 DECEMBER 2012

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
Less than 3 months	105,861,784	706,760	39,860,672	146,429,216	1,059,234	505,586	7,700,695	9,265,515	155,694,731
3 months to 1 year	13,220,802	3,226,585	8,240,371	24,687,758	1,267,115	1,073,448	9,324,606	11,665,169	36,352,927
1 year to 5 years	59,616,558	5,107,410	4,294,152	69,018,120	-	1,450,557	11,663,046	13,113,603	82,131,723
Over 5 years	40,809,604	1,421,429	11,658,865	53,889,898	-	797,922	3,524,304	4,322,226	58,212,124
Add: Grossing up of interest in suspense & provisions	24,079,605	-	-	24,079,605	-	-	-	-	24,079,605
Total	**243,588,353**	**10,462,184**	**64,054,060**	**318,104,597**	**2,326,349**	**3,827,513**	**32,212,651**	**38,366,513**	**356,471,110**

Other Assets include Cash & Deposits with Central Bank, Due from Banks, Trading securities, Investment securities [net of Debt Securities], Investment properties, Property & Equipment & Other Assets.

31 DECEMBER 2011

	Loans & Islamic Financing AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Commitments AED 000	OTC derivatives AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Total AED 000
Less than 3 months	89,315,779	810,740	35,874,931	126,001,450	1,427,673	453,497	8,078,207	9,959,377	135,960,827
3 months to 1 year	13,688,763	1,646,260	7,814,460	23,149,483	971,928	568,482	6,110,960	7,651,370	30,800,853
1 year to 5 years	64,392,394	7,388,335	5,737,785	77,518,514	2,087,160	1,857,194	11,865,343	15,809,697	93,328,211
Over 5 years	36,531,025	1,960,740	7,133,360	45,625,125	-	742,061	3,513,575	4,255,636	49,880,761
Add: Grossing up of interest in suspense & provisions	17,155,033	-	934,335	18,089,368	-	-	-	-	18,089,368
Total	**221,082,994**	**11,806,075**	**57,494,871**	**290,383,940**	**4,486,761**	**3,621,234**	**29,568,085**	**37,676,080**	**328,060,020**

RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Reputational Risk

Reputational 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. It also includes the threat to the brand value of a financial institution.

Reputational 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.

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.

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 and sanctions. The Group also has policies in place at Group-level as well as in the international jurisdictions to meet specific regulatory requirements, including a well embedded "Know-Your-Customer" (KYC) policy at the operational level.

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.

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 Emirates Banks Association's Committee on Basel and Accounts.

According to the guidelines issued by the Central Bank of the UAE, 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 and in anticipation of Basel III.

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.

Capital management policies and stress testing (continued)

The implemented internal capital adequacy assessment process is based on Economic Capital and defines adequacy as balance of capital supply, in the form of available financial resources, and capital demand, in the 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 single-name and sector concentration levels. The aggregate capital demand across risk types is based on inter-risk correlation 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.

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; and
- 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, capitalization levels and funding profile.

Capital management policies and stress testing (continued)

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 minimise its Model Risk arising from complex capital and funding modeling.

Internal Audit's role in overall risk management

Internal Audit's reporting lines are independent of management and it reports directly to the Board Audit Committee. It is responsible for providing an independent review of the control environment across the group including all aspects of risk management. The primary objective of Internal Audit is to provide reliable, valued and timely assurance to the Board and Executive Management over the effectiveness of controls to mitigate current and emerging high risks thereby enhancing the control culture within the Group. The Board Audit Committee reviews and approves Internal Audit's plans and resources, and evaluates the effectiveness of Internal Audit. An assessment by external advisers is also carried out periodically.

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; and
- Group Risk's tools / processes being utilized and acclimatised for use by EIB.

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 were 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 and reputational risk. Emirates NBD Group Risk Management framework covers the risk governance, ownership structure and accountability for, the effective management of risk within all of Dubai Bank.