



**Al Khaliji France S.A.
UNITED ARAB EMIRATES BRANCHES**

**Report and financial statements
for the year ended 31 December 2011**

Al Khaliji France S.A.

Contents	Page
Independent auditor's report	1 - 2
Statement of financial position	3
Statement of income	4
Statement of comprehensive income	5
Statement of changes in head office equity	6
Statement of cash flows	7
Notes to the financial statements	8 - 51

INDEPENDENT AUDITOR'S REPORT

The Directors
Al Khaliji France S.A.

Report on the Financial Statements

We have audited the accompanying financial statements of **Al Khaliji France S.A., United Arab Emirates Branches** (the "Bank"), which comprise the statement of financial position as at 31 December 2011 and the statement of income, statement of comprehensive income, statement of changes in head office equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Cont'd....

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Al Khaliji France S.A., United Arab Emirates Branches** as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Central Bank of the United Arab Emirates.

Report on Other Legal and Regulatory Requirements

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

Deloitte & Touche (M.E.)



Anis F. Sadek
Registration No. 521
Dubai
12 January 2012



**Statement of financial position
As of 31 December 2011**

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	5	212,383	277,714
Due from Head Office	6	47,650	236,510
Due from banks and financial institutions	7	75,904	264,003
Financial Investments	8	476,329	447,067
Loans and advances to customers	9	1,063,590	713,400
Customers' liability under acceptances		119,581	111,289
Other assets	10	14,155	13,054
Property and equipment	11	2,330	381
Intangibles	12	1,289	446
Total Assets		2,013,211	2,063,864
LIABILITIES AND HEAD OFFICE EQUITY			
Liabilities			
Due to banks and financial institutions	13	24,078	34,815
Customers' deposits	14	1,071,561	1,484,180
Due to Head Office	6	351,358	17,509
Liability under acceptances		119,581	111,289
Other liabilities	15	37,963	35,043
Total liabilities		1,604,541	1,682,836
Head Office Equity			
Assigned capital		284,850	284,850
Statutory reserve	16	29,525	24,675
Fair value reserve		12,630	6,914
Retained earnings		81,665	64,589
Total Head Office Equity		408,670	381,028
Total Liabilities and Head Office Equity		2,013,211	2,063,864

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

The financial statements on pages 3 to 51 were approved and signed on 12 January 2012.



 Andre Tyan
 General Manager

**Statement of income
for the year ended 31 December 2011**

	Notes	2011 AED'000	2010 AED'000
Interest income		82,910	71,398
Interest expense		(11,824)	(10,720)
Net interest income		71,086	60,678
Fee and commission income		31,952	27,667
Fee and commission expense		(691)	(397)
Net fee and commission income		31,261	27,270
Net gain from foreign currency transactions		5,608	6,074
Other income		519	368
Operating income for the year		108,474	94,390
General and administrative expenses	17	(38,678)	(35,948)
Impairment losses on loans, net of recoveries	18	(8,061)	(3,070)
Net operating expenses		(46,739)	(39,018)
Profit before tax		61,735	55,372
Income tax expense	19	(13,238)	(10,663)
Profit for the year		48,497	44,709

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

**Statement of comprehensive income
for the year ended 31 December 2011**

	2011 AED'000	2010 AED'000
Profit for the year	48,497	44,709
<i>Other comprehensive income</i>		
Gain on revaluation of available for sale financial assets	5,716	7,803
Total comprehensive income for the year	54,213	52,512

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

**Statement of changes in Head Office equity
for the year ended 31 December 2011**

	Assigned capital AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2009	284,850	20,204	(889)	24,351	328,516
Profit for the year	-	-	-	44,709	44,709
Other comprehensive income for the year	-	-	7,803	-	7,803
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	7,803	44,709	52,512
Transfer to statutory reserve	-	4,471	-	(4,471)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	284,850	24,675	6,914	64,589	381,028
Profit for the year	-	-	-	48,497	48,497
Other comprehensive income for the year	-	-	5,716	-	5,716
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	-	5,716	48,497	54,213
Profits transferred to Head Office	-	-	-	(26,571)	(26,571)
Transfer to statutory reserve	-	4,850	-	(4,850)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	284,850	29,525	12,630	81,665	408,670
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**Statement of cash flows
for the year ended 31 December 2011**

	2011	2010
Cash flows from operating activities		
Profit before tax	61,735	55,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment losses on loans, net of recoveries	8,061	3,070
Depreciation and amortization	488	781
Fair value of forward deals	(110)	93
	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	70,174	59,316
Decrease/(increase) in cash reserve with U.A.E. Central Bank	6,639	(6,367)
Increase in loans and advances	(358,251)	(71,695)
Increase in other assets	(1,101)	(4,096)
(Decrease)/increase in customers' deposits	(412,619)	281,138
Increase/(decrease) in other liabilities	722	(1,709)
	<hr/>	<hr/>
Cash (used in)/generated from operations	(694,436)	256,587
Tax paid	(10,930)	(6,520)
	<hr/>	<hr/>
Net cash (used in)/from operating activities	(705,366)	250,067
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of property and equipment	(2,193)	(268)
Purchase of intangibles	(1,087)	(381)
Purchase of investments	(107,021)	(168,155)
Proceeds from sale of investments	83,475	5,871
	<hr/>	<hr/>
Net cash used in investing activities	(26,826)	(162,933)
	<hr/>	<hr/>
Cash flows from financing activities		
Profits transferred to Head Office	(26,571)	-
	<hr/>	<hr/>
Net cash used in financing activities	(26,571)	-
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(758,763)	87,134
Cash and cash equivalents, at the beginning of the year	627,857	540,723
	<hr/>	<hr/>
Cash and cash equivalents, at the end of the year (Note 20)	(130,906)	627,857
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the financial statements for the year ended 31 December 2011

1. Status and activities

Al Khaliji France S.A. is a French registered bank with its Head Office in Paris, France. It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has four branches, one in each of Dubai, Abu Dhabi, Ras Al Khaimah and Sharjah. The ultimate parent and controlling party is Al Khaliji Commercial Bank Doha, Qatar.

The Bank's regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office's registered address is P.O. Box 4207, Dubai, United Arab Emirates.

These financial statements reflect the activities of the branches of Al Khaliji France S.A. in the United Arab Emirates only (the "Bank") and exclude all transactions, assets and liabilities of the Head Office and Ultimate Parent's branches.

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

Standards and Interpretations effective for the current year

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

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in profit or loss.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS34; IFRIC 13.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

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

Standards and Interpretations in issue but not yet effective

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

	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> Amendments to IFRS 7 <i>Disclosures – Transfers of Financial Assets</i> increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the year. 	1 July 2011
<ul style="list-style-type: none"> IFRS 10 - <i>Consolidated Financial Statements</i> uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 <i>Separate Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> have been amended for the issuance of IFRS 10. 	1 January 2013
<ul style="list-style-type: none"> IFRS 11 - <i>Joint Arrangements</i> establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11. 	1 January 2013
<ul style="list-style-type: none"> IFRS 12 - <i>Disclosure of Interests in Other Entities</i> combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard. 	1 January 2013
<ul style="list-style-type: none"> IFRS 13 - <i>Fair Value Measurement</i> issued in May 2011, establishes a single framework for measuring fair value and is applicable for both financial and non-financial items. 	1 January 2013
<ul style="list-style-type: none"> Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present income statement and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis. 	1 July 2012

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

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

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

	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Amendments to IAS 12 - <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. 	1 January 2012
<ul style="list-style-type: none"> • Amendments to IAS 19 - <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur. 	1 January 2013
<ul style="list-style-type: none"> • IFRIC 20 - <i>Stripping Costs in the Production Phase of a Surface Mine</i> 	1 January 2013
<ul style="list-style-type: none"> • Amendments to IFRS 7 <i>Financial Instruments - Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities. 	1 January 2013
<ul style="list-style-type: none"> • Amendments to IAS 32 <i>Financial Instruments - Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities. 	1 January 2014
<ul style="list-style-type: none"> • Amendments to IFRS 7 <i>Financial Instruments - Disclosures</i> relating to disclosures about the initial application of IFRS 9 	1 January 2015 (or otherwise when IFRS 9 is first applied)
<p>* In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.</p>	

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

3. Significant accounting policies

a) Statement of compliance

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the U.A.E. regulations.

b) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments which are carried at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

c) Derivative financial instruments and hedge accounting

The Bank uses derivative financial instruments, including forward foreign exchange contracts to hedge certain currency, interest and other market risks.

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

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

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in statement of income as they arise.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a forecasted transaction that will affect future reported net income.

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

Fair Value Hedge

Gains and losses from re-measuring derivatives, which meet the criteria for fair value hedge accounting, to their fair value are recognized in the statement of income.

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

Cash Flow Hedge

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in other reserves under Head Office equity and the ineffective portion, if any, is recognized in the statement of income. For cash flow hedges affecting future transactions, the gains or losses recognized in other reserves, are transferred to the statement of income in the same period in which the hedged transaction affects the statement of income. Where the hedged forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognized, the associated gains or losses that had previously been recognized in other reserves are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

c) Derivative financial instruments and hedge accounting (continued)

Cash Flow Hedge (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss on the cash flow hedging instrument that was recognized in other reserves is retained in Head Office equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to the statement of income for the year.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealized gains or losses reported in the statement of income.

d) Revenue and expense recognition

The Bank recognizes interest income and interest expense in the statement of income for all interest bearing financial instruments classified as held to maturity, available for sale and loans and receivables using the effective interest method.

Interest income on non-performing loans and advances is suspended when realization of such interest or the principal amount becomes doubtful. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

Fees and commission income and expenses are generally recognized in the statement of income on accrual basis as the related services are provided except those that are integral to the effective interest rate calculations. Fees and commission included in the effective interest rate calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

e) Foreign currency transactions

The Bank's financial statements are presented in the U.A.E. Dirham (AED) which is the Bank's functional and presentation currency.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

e) Foreign currency transactions (continued)

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale, are recognized as a translation gain or loss in the statement of income when incurred. Translation differences on non monetary items, classified as available for sale, such as equities are included in the fair value reserve in equity when incurred.

f) Financial instruments

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

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

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on the trade date basis where the purchase or sale of financial assets that require delivery of the assets within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets designated at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified as ‘available for sale’ (AFS) financial assets, held to maturity investments’ and ‘loans and advances’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Available for sale financial assets

Available-for-sale financial investments are non derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial investments are initially recognized at fair value plus directly related incremental transaction costs and are subsequently carried at fair value. Unrealized gains or losses arise from changes in the fair values are recognized directly in equity in the available-for-sale reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognized immediately in the statement of income.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Available for sale financial assets (continued)

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity is included in the statement of income for the year.

Dividends on available for sale equity instruments are recognised in the statement of income when the Bank's right to receive payments is established.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Held to maturity financial assets

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

Loans and advances

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

Loans and advances are initially recognized when cash is advanced to borrowers at the fair value on the commitment date plus directly attributable incremental transaction costs. They are subsequently carried at amortized cost using the effective interest method less any amounts written off and allowance for impairment.

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

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets are impaired.

These are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the reporting period ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- a) significant financial difficulty of the issuer or counterparty;
- b) a breach of contract, such as a default or delinquency in payments of principal or interest;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becomes probable that the issuer or borrower will enter bankruptcy or other financial restructuring;
- e) The disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of issuer or borrowers in the Bank portfolio;
 - national or local economic conditions that correlate with defaults on the assets in the Bank portfolio.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

Individually assessed loans

These represent mainly corporate loans which are assessed individually and classified by the Credit Department in order to determine whether there exists any objective evidence that a loan is impaired.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized in the statement of income. In determining such impairment losses on individually assessed accounts, the following factors are considered:

- Bank's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari-passu with, and the likelihood of other creditors continuing to support the company; and
- the realizable value of security (or other credit mitigants) and likelihood of successful repossession.

Collectively assessed loans

Impairment losses of collectively assessed loans are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Financial assets (continued)

Impairment of available for sale investments

A significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether impairment exists. Where such evidence exists, the cumulative net loss that has been previously recognized directly in equity is removed from equity and recognized in the statement of income. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets. Reversals of impairment of debt instruments are recognized in the statement of income. Reversals of impairment of equity shares are not recognized in the statement of income, increases in the fair value of equity shares after impairment are recognized directly in equity.

De-recognition of financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Bank is recognized as a separate asset.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial liabilities

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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

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

De-recognition of financial liabilities

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

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

f) Financial instruments (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported at the end of each reporting period if, and only if, there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. Depreciation is determined using the straight-line method over the estimated useful life as follows:

	<u>Years</u>
Office equipment	3 - 5
Furniture and fittings	5
Vehicles	3
Leasehold improvements	5

The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

The useful lives, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each reporting date to take account of any change in circumstances.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of income.

h) Intangible assets

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

**Notes to the financial statements (continued)
for the year ended 31 December 2011****3. Significant accounting policies (continued)****i) Impairment of tangible and intangible assets**

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

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

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

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

j) Employees' end of service benefits

Provision for employees' end of service indemnity is made based on current remuneration and cumulative years of service at the end of each reporting period. The provision is made in accordance with the Bank's policy which is not less than the liability arising under the U.A.E. labour laws.

k) Operating leases

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Where the Bank is the lessee and the leased assets are not recognized on reporting period, rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases.

l) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits with the U.A.E. Central Bank (except mandatory cash reserves) and due from banks and financial institutions. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

m) Taxation

Income tax represents 20% of the taxable income of all Branches excluding Ras Al Khaimah Branch, where income tax does not apply.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

3. Significant accounting policies (continued)

n) Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Guarantees could be to secure a Bid Bond, Performance of a Contract by the client or to secure the advance payment made for any contract.

Financial guarantees are initially measured at fair value on the date that the guarantee was given. Other than where the fair value option is applied, subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the statement of income any fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at each reporting period.

Any increase in the liability relating to guarantees is taken to the statement of income provisions for undrawn contractually committed facilities and guarantees provided. Any liability remaining is recognized in the statement of income when the guarantee is discharged, cancelled or expires.

o) Documentary credits

Documentary Credits, issued on behalf of the clients of the Bank, are contracts whereby the Bank guarantees to pay on behalf of the client money to the holder for goods supplied to the client. The payment would be made only on submission of documents as prescribed in the credit by the holder through his bank.

The income received for the issue of the credit and subsequent handling of the bills under the credit is recognized as fee income as and when received.

p) Commitments to extend credit

These are firm commitments made by the Bank to its clients to extend credit as per the terms of the agreement and are considered as an off balance sheet liability.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Bank's accounting policies, which are described in Note 3, management has made certain judgments that have the most significant effect on the amounts recognized in the financial statements. In addition, key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting date, could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. These critical judgment and key sources of estimation uncertainty are discussed below:

Impairment of loans

The Bank's accounting policy for allowances in relation to impaired loans and advances is described in Note 3(f). Impairment is calculated on the basis of discounted estimated future cash flows and requires judgment to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans.

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

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

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

Individually assessed loans

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

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

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

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

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

Collectively assessed loans

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

The portfolio approach is applied to accounts in the following portfolios:

- a) Personal loans;
- b) Home loan; and
- c) Auto loans.

These portfolio allowances are reassessed on a periodical basis and allowances are adjusted accordingly.

Performing loans

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

5. Cash and balances with U.A.E. Central bank

	2011	2010
	AED'000	AED'000
Cash on hand	11,558	10,888
Current account with U.A.E. Central Bank	109,418	8,780
Statutory cash ratio requirements	91,407	98,046
Certificates of deposit with U.A.E. Central bank	-	160,000
	212,383	277,714

The Bank is required to maintain statutory deposits with U.A.E. Central Bank which are not available for use in the day-to-day operations.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

6. Related party transactions

The Bank enters into transactions with entities that fall within the definition of a related party in accordance with International Accounting Standard 24: Related Party Disclosures. Related parties comprise Head Office and ultimate parent and controlling party outside the U.A.E. The Bank's management decides on the terms and conditions of such related party transactions.

The Bank maintains certain deposits with the Head Office in Paris (the "Head Office") and the ultimate parent and controlling party and conducts banking transactions with them as part of its normal activities.

The Head Office provides administrative and management support to the Bank (Note 17) for which the U.A.E. branches were charged a fee for the year ended 31 December 2011 of AED 0.67 million (2010: AED 0.64 million).

	2011 AED'000	2010 AED'000
<i>Due from Head Office comprise:</i>		
Current accounts	14,318	17,452
Term deposits	33,332	219,058
	47,650	236,510
<i>Due to Head Office comprise:</i>		
Current accounts	15,279	17,509
Term deposits	336,079	-
	351,358	17,509

Profit for the year includes related party transactions as follows:

	2011 AED'000	2010 AED'000
Interest income	51	67
Commission income	674	642
Interest expense	45	54
<i>Key management personnel compensation:</i>		
Compensation paid/accrued during the year to key management personnel	5,958	5,906

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

7. Due from banks and financial institutions

	2011 AED'000	2010 AED'000
Due from banks and financial institutions outside the U.A.E.	75,904	167,623
Due from banks and financial institutions in the U.A.E.	-	96,380
	<u>75,904</u>	<u>264,003</u>

8. Financial investments

	2011 AED'000	2010 AED'000
Available for sale - debt securities	346,605	287,578
Held to maturity	129,724	159,489
	<u>476,329</u>	<u>447,067</u>

Investments by geographic concentration are as follows:

- Within U.A.E.	452,645	345,128
- Outside U.A.E.	23,684	101,939
	<u>476,329</u>	<u>447,067</u>

The analysis of financial investments by industry sector is as follows:

	2011 AED'000	2010 AED'000
Government and Public Sector	364,614	332,683
Commercial and Business	-	29,250
Financial Institutions	111,715	85,134
Total	<u>476,329</u>	<u>447,067</u>

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

9. Loans and advances to customers

a) Loans and advances comprise:

	2011 AED'000	2010 AED'000
Loans and advances	1,089,566	733,276
Less: Allowance for impairment	(25,976)	(19,876)
	<u>1,063,590</u>	<u>713,400</u>

At 31 December 2011, the fair value of collateral held against loans and advances to customers was AED 453 million (2010: AED 302 million) an analysis of which is provided in Note 27.

b) The movement of the allowances against the loans and advances portfolio is as follows:

	2011 AED'000	2010 AED'000
Balance at the beginning of the year	19,876	16,762
Allowance for the year	11,499	4,733
Write-offs during the year	(3,747)	(1,458)
Recoveries during the year	(1,652)	(161)
Balance at the end of year	<u>25,976</u>	<u>19,876</u>

Allowance for the year includes AED 1.9 million of suspended interest (2010: AED 1.5 million).

	2011 AED'000	2010 AED'000
Specific impairment	15,185	13,285
Collective impairment	10,791	6,591
	<u>25,976</u>	<u>19,876</u>

c) Analysis of gross loans and advances to customers by class:

	2011 AED'000	2010 AED'000
Corporate lending	932,791	392,340
Small business lending	111,791	296,451
Retail lending	44,984	44,485
	<u>1,089,566</u>	<u>733,276</u>

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

9. Loans and advances to customers (continued)

d) Gross loans and advances by geographical area were as follows:

	2011	2010
	AED'000	AED'000
Within U.A.E.	1,089,566	733,276

e) Gross loans and advances by industry group were as follows:

	2011	2010
	AED'000	AED'000
Wholesale and retail trade	309,253	230,141
Personal loans	37,642	38,796
Manufacturing	267,095	150,784
Transport and communication	32,823	31,231
Construction	213,639	173,197
Services	229,114	109,127
	1,089,566	733,276

10. Other assets

	2011	2010
	AED'000	AED'000
Interest receivable	11,892	10,399
Prepaid expenses	2,137	2,070
Other	126	585
	14,155	13,054

Notes to the financial statements (continued)
for the year ended 31 December 2011

11. Property and equipment

	Office Equipment AED'000	Furniture and fittings AED'000	Vehicles AED'000	Leasehold improvements AED'000	Capital work in progress AED'000	Total AED'000
Cost						
At 31 December 2009	3,778	913	138	3,808	-	8,637
Additions during the year	95	-	-	173	-	268
At 31 December 2010	3,873	913	138	3,981	-	8,905
Additions during the year	586	218	-	567	822	2,193
At 31 December 2011	4,459	1,131	138	4,548	822	11,098
Accumulated depreciation						
At 31 December 2009	3,615	789	95	3,448	-	7,947
Charge for the year	118	62	43	354	-	577
At 31 December 2010	3,733	851	138	3,802	-	8,524
Charge for the year	136	24	-	84	-	244
At 31 December 2011	3,869	875	138	3,886	-	8,768
Carrying amount						
At 31 December 2011	590	256	-	662	822	2,330
At 31 December 2010	140	62	-	179	-	381

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

12. Intangibles

	Software AED'000	Intangibles work in progress AED'000	Total AED'000
Cost			
At 31 December 2009	5,961	-	5,961
Additions during the year	381	-	381
	<hr/>	<hr/>	<hr/>
At 31 December 2010	6,342	-	6,342
Additions during the year	740	347	1,087
	<hr/>	<hr/>	<hr/>
At 31 December 2011	7,082	347	7,429
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 31 December 2009	5,692	-	5,692
Charge for the year	204	-	204
	<hr/>	<hr/>	<hr/>
At 31 December 2010	5,896	-	5,896
Charge for the year	244	-	244
	<hr/>	<hr/>	<hr/>
At 31 December 2011	6,140	-	6,140
	<hr/>	<hr/>	<hr/>
Carrying amount			
At 31 December 2011	942	347	1,289
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010	446	-	446
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13. Due to banks and financial institutions

	2011 AED'000	2010 AED'000
Due to banks and financial institutions outside the U.A.E.	6,078	34,815
Due to banks and financial institutions in the U.A.E.	18,000	-
	<hr/>	<hr/>
	24,078	34,815
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

14. Customers' deposits

	2011 AED'000	2010 AED'000
Current accounts	433,581	551,382
Saving accounts	9,077	8,148
Time deposits	494,888	757,373
Margin accounts	134,015	167,277
	1,071,561	1,484,180

Time deposits under lien as security for loans and advances (funded and unfunded) as at 31 December 2011 amounted to AED 266 million (2010: AED 262 million).

15. Other liabilities

	2011 AED'000	2010 AED'000
Income tax provision (Note 19)	12,955	10,647
Provision for employees' end of service indemnity	15,323	13,725
Interest payable	1,477	1,362
Other	8,208	9,309
	37,963	35,043

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

16. Head Office equity

Statutory reserve

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Bank has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the share capital. This reserve is not available for distribution.

17. General and administrative expenses

	2011 AED'000	2010 AED'000
Payroll	30,035	26,499
Depreciation and amortization	488	781
Head office charges	674	642
Other	7,481	8,026
	38,678	35,948

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

18. Impairment losses on loans, net of recoveries

	2011 AED'000	2010 AED'000
Impairment losses on loans	9,627	3,231
Recoveries during the year	(1,566)	(161)
	<hr/> 8,061 <hr/>	<hr/> 3,070 <hr/>

The impairment losses on loans, net of recoveries stated above excludes suspended interest of AED 1.9 million (2010: AED 1.5 million).

19. Taxation

The Bank is subject to taxation at the rate of 20% of the taxable income for the year in the Emirates of Abu Dhabi, Dubai and Sharjah. The taxable income is calculated after adding back certain provisions to the net profit before taxation, which management believes are likely to be disallowed as deductions by the tax authorities:

	2011 AED'000	2010 AED'000
Balance, at the beginning of the year	10,647	6,504
Current year charges	13,238	10,663
Paid during the year	(10,930)	(6,520)
	<hr/> 12,955 <hr/>	<hr/> 10,647 <hr/>

20. Cash and cash equivalents

	2011 AED'000	2010 AED'000
Cash and balances with U.A.E. Central Bank	120,976	19,668
Cash reserves and certificates of deposit with U.A.E. Central Bank	91,407	258,046
Due from Head Office	47,650	236,510
Due from banks and financial institutions outside UAE	75,904	167,623
Due from banks and financial institutions in the U.A.E.	-	96,380
	<hr/> 335,937 <hr/>	<hr/> 778,227 <hr/>
Due to Head Office	(351,358)	(17,509)
Due to banks and financial institutions	(24,078)	(34,815)
Cash reserves with U.A.E. Central Bank	(91,407)	(98,046)
	<hr/> (130,906) <hr/>	<hr/> 627,857 <hr/>

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

21. Concentrations of assets, liabilities and equity and off balance sheet items

	31 December 2011			31 December 2010		
	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000
<i>Geographic regions</i>						
U.A.E.	1,832,532	1,551,713	1,112,395	1,534,986	1,907,597	1,078,170
Other Middle East countries	25,390	120,307	14,240	159,340	20,957	27,809
O.E.C.D.	124,560	295,285	783	329,538	91,940	747
Others	30,729	45,906	-	40,000	43,370	-
Total	2,013,211	2,013,211	1,127,418	2,063,864	2,063,864	1,106,726
<i>Industry Sector</i>						
Government and Public Sector	654,654	68	-	705,035	163	-
Commercial and Business	1,049,298	812,780	1,094,542	704,142	1,242,833	1,056,263
Personal	44,657	346,013	1,261	44,272	350,984	1,108
Financial Institutions	235,269	407,718	31,615	585,647	53,813	49,355
Others	29,333	446,632	-	24,768	416,071	-
Total	2,013,211	2,013,211	1,127,418	2,063,864	2,063,864	1,106,726

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

22. Classification of financial assets and liabilities

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

	Available- for- sale- investments AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with central banks	-	-	212,383	212,383
Due from head office	-	-	47,650	47,650
Due from banks and financial institutions	-	-	75,904	75,904
Financial investments	346,605	-	129,724	476,329
Loans and advances to customers	-	1,063,590	-	1,063,590
Customers' liability under acceptances	-	-	119,581	119,581
Other assets	-	-	12,018	12,018
Total	346,605	1,063,590	597,260	2,007,455
Financial liabilities				
Due to banks and financial institutions	-	-	24,078	24,078
Customer deposits	-	-	1,071,561	1,071,561
Due to head office	-	-	351,358	351,358
Liability under acceptances	-	-	119,581	119,581
Other liabilities	-	-	9,685	9,685
Total	-	-	1,576,263	1,576,263

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

22. Classification of financial assets and liabilities (continued)

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

	Available- for- sale- investments AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with central banks	-	-	277,714	277,714
Due from head office	-	-	236,510	236,510
Due from banks and financial institutions	-	-	264,003	264,003
Financial Investments	287,578	-	159,489	447,067
Loans and advances to customers	-	713,400	-	713,400
Customers' liability under acceptances	-	-	111,289	111,289
Other assets	-	-	10,984	10,984
Total	<u>287,578</u>	<u>713,400</u>	<u>1,059,989</u>	<u>2,060,967</u>
Financial liabilities				
Due to banks and financial institutions	-	-	34,815	34,815
Customer deposits	-	-	1,484,180	1,484,180
Due to head office	-	-	17,509	17,509
Liability under acceptances	-	-	111,289	111,289
Other liabilities	-	-	10,671	10,671
Total	<u>-</u>	<u>-</u>	<u>1,658,464</u>	<u>1,658,464</u>

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

23. Liquidity profile

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2011				
Assets				
Cash and balances with U.A.E. Central Bank	212,383	-	-	212,383
Due from Head Office	47,650	-	-	47,650
Due from banks and financial institutions	75,904	-	-	75,904
Financial investments	4,761	-	471,568	476,329
Loans and advances to customers	573,987	212,665	276,938	1,063,590
Customers' liability under acceptances	83,317	36,264	-	119,581
Other assets	12,957	1,142	56	14,155
Property and equipment	-	-	2,330	2,330
Intangibles	-	-	1,289	1,289
Total Assets	1,010,959	250,071	752,181	2,013,211
Liabilities and Head Office Equity				
Due to banks and financial institutions	24,078	-	-	24,078
Customers' deposits	958,642	112,919	-	1,071,561
Due to Head Office	351,358	-	-	351,358
Liability under acceptances	83,317	36,264	-	119,581
Other liabilities	22,662	-	15,301	37,963
Head Office equity	-	-	408,670	408,670
Total Liabilities and Head Office Equity	1,440,057	149,183	423,971	2,013,211

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

23. Liquidity profile (continued)

	Less than 3 months AED'000	3 Months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2010				
Assets				
Cash and balances with U.A.E. Central Bank	277,714	-	-	277,714
Due from Head Office	211,971	24,539	-	236,510
Due from banks and financial institutions	264,003	-	-	264,003
Financial investments	-	54,306	392,761	447,067
Loans and advances to customers	350,153	186,229	177,018	713,400
Customers' liability under acceptances	78,125	33,164	-	111,289
Other assets	11,811	1,125	118	13,054
Property and equipment	-	-	381	381
Intangibles	-	-	446	446
Total Assets	<u>1,193,777</u>	<u>299,363</u>	<u>570,724</u>	<u>2,063,864</u>
Liabilities and Head Office Equity				
Due to banks and financial institutions	34,815	-	-	34,815
Customers' deposits	1,341,669	142,511	-	1,484,180
Due to Head Office	17,509	-	-	17,509
Liability under acceptances	78,125	33,164	-	111,289
Other liabilities	21,337	-	13,706	35,043
Head Office equity	-	-	381,028	381,028
Total Liabilities and Head Office Equity	<u>1,493,455</u>	<u>175,675</u>	<u>394,734</u>	<u>2,063,864</u>

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the end of each reporting period with the loans and advances maturities being determined based on contractual obligations.

Notes to the financial statements (continued)
for the year ended 31 December 2011
24. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortized cost

The Bank's management considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Fair value measurements recognised in the statement of financial position

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

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

Notes to the financial statements (continued)
for the year ended 31 December 2011
24. Fair value of financial instruments (continued)

	31 December 2011			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
<i>Available-for-sale financial assets</i>				
- Debt securities	341,844	4,761	-	346,605
Total	341,844	4,761	-	346,605
	31 December 2010			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
<i>Available-for-sale financial assets</i>				
- Debt securities	282,076	5,502	-	287,578
Total	282,076	5,502	-	287,578

Transfers between Level 1 and Level 2:

During the year, there were no transfers between level 1 and level 2 of the fair value hierarchy for financial assets which are recorded at fair value.

All gain and losses included in other comprehensive income relate to available for sale financial investments held at the end of the reporting period and are reported as changes of 'Fair value reserve'.

25. Derivatives

Derivatives and foreign exchange instruments are utilized by the Bank primarily to satisfy the requirements of its customers and are also used to a limited extent to manage the Bank's own exposure to currency, interest and other market risks.

The most frequently used derivatives by the Bank are forward foreign exchange contracts, which are initially measured at cost and subsequently re-measured at fair value. Derivatives with positive market values are included in other assets and derivatives with negative market values are included in other liabilities in the reporting period. The resultant gains and losses from derivatives are included in the statement of income.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

25. Derivatives (continued)

The table below shows the positive and negative fair values of derivative financial instruments at the year end which are equivalent to the market value, together with the total contract values:

	Positive fair value AED'000	Negative fair value AED'000	Total national value AED'000	1 to 3 months AED'000	3 Months to 1 year AED'000
2011					
Forward foreign exchange contracts	18	1	10,231	10,231	-
	=====	=====	=====	=====	=====
2010					
Forward foreign exchange contracts	18	111	53,598	4,427	49,171
	=====	=====	=====	=====	=====

26. Capital management

Regulatory capital

The Central Bank of the U.A.E. sets and monitors capital requirements for the Bank.

The Central Bank of the U.A.E. adopted Basel 2 capital regime in November 2009. Al Khaliji France S.A. U.A.E. Branches calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the U.A.E. The minimum capital ratio prescribed by the Central Bank is 12% of Risk Weighted Assets (RWA) calculated as per the guidelines issued by them.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment subject to the limit of 1.25% of RWA and the element of the fair value reserve (45%) relating to unrealised gains on financial investments classified as available for sale.

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The Tier One Capital must be more than 6% of total RWA and Tier 2 Capital cannot be more than 66.6% of Tier One Capital.

The Bank's RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The bank is following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel 2.

Notes to the financial statements (continued)
for the year ended 31 December 2011
26. Capital management (continued)

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

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

The Bank's regulatory capital position is as follows:

	2011	2010
	AED'000	AED'000
<i>Tier 1 capital</i>		
Assigned capital	284,850	284,850
Statutory reserve	29,525	24,675
Retained earnings	81,665	64,589
Less: Intangibles - Software	(1,289)	(446)
	394,751	373,668
<i>Tier 2 capital</i>		
Collective provision for impairment	10,791	6,591
Fair value reserve (45%) – Available for sale	5,684	3,111
	16,475	9,702
Total capital base (a)	411,226	383,370

The Bank's regulatory capital position is as follows:

	2011	2010
	AED'000	AED'000
<i>Risk-weighted assets</i>		
Credit risk:		
On balance sheet	972,144	729,822
Off balance sheet	580,070	523,307
	1,552,214	1,253,129
Market risk	595	1,530
Operational risk	113,388	92,331
Total risk-weighted assets (b)	1,666,197	1,346,990
Capital adequacy ratio = [a/b x 100]	24.68%	28.46%

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

26. Capital management (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

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

27. Risk management

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

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk

The Head Office of the Bank has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Bank.

The Credit Committee and Management Committee work under the mandate of the Head Office to set up risk limits and manage the overall risk in the Bank.

These committees are responsible for developing credit, market and operational risk policies. Highly experienced and trained managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

Credit risk management

Policies relating to credit are reviewed and approved by the Bank's Credit Committee. All credit lines are approved centrally for U.A.E. branches. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank further limits risk through diversification of its assets by industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Audit, Review and Compliance Bank and facilities are risk graded based on criterion established in the Credit Policy Manual.

The Credit Committee is responsible for setting credit policy of the Bank. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

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

**Notes to the financial statements (continued)
for the year ended 31 December 2011
27. Risk management (continued)**

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Bank's Credit Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Commercial lending

All credit applications for commercial lending are subject to the Bank's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Bank does not lend to companies operating in industries that are considered by the Bank inherently risky and where specialized industry knowledge is required. In addition, the Bank sets credit limits for all customers based on an evaluation of their creditworthiness.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a set of delegated credit authority limits approved by the Bank's Head Office.

Credit review procedures and loan classification

The Bank's Credit Risk Team (the 'CRT'), subjects the Bank's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The CRT validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

If a credit is overdue for 180 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

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

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded fair, OLEM, substandard, doubtful or loss in the Bank's internal credit risk grading system.

**Notes to the financial statements (continued)
for the year ended 31 December 2011****27. Risk management (continued)****Past due but not impaired loans**

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan or security (and any related allowances for impairment losses) when Bank Credit Committee determines that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

27. Risk management (continued)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 or 2010.

At 31 December 2011 the fair value of collateral held was as follows:

	Loans and advances to customers	
	2011	2010
	AED'000	AED'000
<i>Against impaired</i>		
Property	600	2,400
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
<i>Against past due but not impaired</i>		
Property	-	-
Debt securities	-	-
Equities	-	-
Cash	-	-
Others	-	-
<i>Against neither past due nor impaired</i>		
Property	309,469	190,107
Debt securities	-	-
Equities	-	-
Cash	92,266	71,812
Others	50,757	37,430
Total	453,092	301,749
	=====	=====

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

27. Risk management (continued)

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

	U.A.E. AED'000	Middle East countries AED'000	O.E.C.D AED'000	Other countries AED'000	Total AED'000
2011					
Non-performing loans	18,434	-	-	-	18,434
Impairment allowance for credit losses	10,409	-	-	-	10,409
Interest in suspense	4,776	-	-	-	4,776
	=====	=====	=====	=====	=====
 2010					
Non-performing loans	21,104	-	-	-	21,104
Impairment allowance for credit losses	9,274	-	-	-	9,274
Interest in suspense	4,011	-	-	-	4,011
	=====	=====	=====	=====	=====

Notes to the financial statements (continued)
for the year ended 31 December 2011
27. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2011:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central bank	-	-	-	-	212,383	212,383
Due from head office	47,650	-	-	-	-	47,650
Due from banks and financial institutions	75,904	-	-	-	-	75,904
Financial investments	24,498	-	-	451,831	-	476,329
Loans and advances to customers	700,028	104,400	55,136	200,751	3,275	1,063,590
Customers' liability under acceptances	-	-	-	-	119,581	119,581
Other assets	-	-	-	-	14,155	14,155
Property and equipment	-	-	-	-	2,330	2,330
Intangibles	-	-	-	-	1,289	1,289
Total assets	848,080	104,400	55,136	652,582	353,013	2,013,211
Liabilities and Head Office equity						
Due to banks and financial institutions	24,078	-	-	-	-	24,078
Customers' deposits	365,221	76,048	34,961	-	595,331	1,071,561
Due to head office	351,358	-	-	-	-	351,358
Liability under acceptances	-	-	-	-	119,581	119,581
Other liabilities	-	-	-	-	37,963	37,963
Head Office Equity	-	-	-	-	408,670	408,670
Total liabilities and head office equity	740,657	76,048	34,961	-	1,161,545	2,013,211
On Balance Sheet gap	107,423	28,352	20,175	652,582	(808,532)	-
Cumulative interest rate sensitivity gap	107,423	135,775	155,950	808,532	-	-

Notes to the financial statements (continued)
for the year ended 31 December 2011
27. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2010:

Interest Rate Sensitivity Gap:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over one year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with U.A.E. Central bank	160,000	-	-	-	117,714	277,714
Due from head office	211,971	24,539	-	-	-	236,510
Due from banks and financial institutions	264,003	-	-	-	-	264,003
Financial Investments	-	5,502	48,804	392,761	-	447,067
Loans and advances to customers	350,152	77,518	108,711	177,019	-	713,400
Customers' liability under acceptances	-	-	-	-	111,289	111,289
Other assets	-	-	-	-	13,054	13,054
Property and equipment	-	-	-	-	381	381
Intangibles	-	-	-	-	446	446
Total assets	986,126	107,559	157,515	569,780	242,884	2,063,864
Liabilities and equity						
Due to banks and financial institutions	34,815	-	-	-	-	34,815
Customers' deposits	1,341,669	113,881	28,630	-	-	1,484,180
Due to head office	17,509	-	-	-	-	17,509
Liability under acceptances	-	-	-	-	111,289	111,289
Other liabilities	-	-	-	-	35,043	35,043
Head Office Equity	-	-	-	-	381,028	381,028
Total liabilities and head office equity	1,393,993	113,881	28,630	-	527,360	2,063,864
On Balance Sheet gap	(407,867)	(6,322)	128,885	569,780	(284,476)	-
Cumulative interest rate sensitivity gap	(407,867)	(414,189)	(285,304)	284,476	-	-

Notes to the financial statements (continued)
for the year ended 31 December 2011
27. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

The daily liquidity position is monitored regularly and liquidity stress testing is conducted covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by Head Office. Reports of the bank liquidity positions are reviewed daily. A summary report including any exceptions and remedial action taken is also reviewed daily.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of funds to stable resources and stress testing of liquid funds against unexpected withdrawal of liabilities.

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading or banking-book.

The Bank carries a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange for the account of the Bank is managed properly.

**Notes to the financial statements (continued)
for the year ended 31 December 2011
27. Risk management (continued)**

Market risk - Non Trading or Banking Book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures.

i) Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Bank uses monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by Local Management Committee. Since a portion of the Bank's assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Bank's assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2011, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the asset or swap. All the banking book exposures are monitored and analyzed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net income over a 12 months period as on 31 December 2011 would have been a decrease in net income by -3.88% (in case of decrease of interest rate) and would have been an increase in net income by +3.88% (in case of increase of interest rate) [2010: -4.35% and +4.35%] respectively.

The effective interest rate on bank placements, financial institutions, investments and certificates of deposits with Central Bank was 2.05% (2010: 2.02%), on loans and advances 6.79% (2010: 6.95%), on customer deposits 0.77% (2010: 0.84%) and on bank borrowings 0.67% (2010: 0.22%).

Notes to the financial statements (continued)
for the year ended 31 December 2011
27. Risk management (continued)

Market risk management - continued

ii) *Currency risk*

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Head Office has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The Bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's Head Office sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposures denominated in foreign currencies:

	Net spot position AED'000	Forward position AED'000	Total 2011 AED'000	Total 2010 AED'000
Euro	205	-	205	947
Sterling Pounds	73	-	73	11
Swedish Kroners	159	-	159	174
Lebanese Pounds	(13)	-	(13)	635
Kuwaiti Dinars	4	-	4	83
South African Rand	1	-	1	5
Japanese Yens	83	-	83	7
Canadian Dollars	4	-	4	6
Swiss Francs	2	-	2	9
Australian Dollars	42	-	42	16
Norwegian Kroner	2	-	2	2
Jordanian Dinars	17	-	17	13
Danish Kroners	3	-	3	4
Total	582	-	582	1,912

The exchange rate of AED against US Dollar is pegged since November 1980 and the Bank's exposure to currency risk is limited to that extent.

**Notes to the financial statements (continued)
for the year ended 31 December 2011**

27. Risk management (continued)

Operational risk

The Bank manages and undertakes to minimise operational losses as follows:

Identify and assess the operational risk inherent in all material products, activities, processes and systems, and ensure that before new products, activities, processes and systems are introduced or undertaken, the inherent operational risk in them is subject to adequate assessment procedures.

Implement a process to monitor operational risk profiles and material exposures to losses on a regular basis.

Establish and implement policies, processes and procedures to mitigate and/or control material operational risks. Periodically review organizational risk limitation and control strategy and adjust its operational risk profile using appropriate strategies in the context of the Bank's overall risk appetite and profile.

Ensure contingency and business continuity plans are in place to ensure the Bank's ability to operate on an ongoing basis and to limit losses in the event of severe business interruption, disruption or loss.

28. Contingent liabilities and commitments

	2011	2010
	AED'000	AED'000
<i>a) Contingent liabilities</i>		
Guarantees	963,563	933,879
Letters of credit	163,855	172,847
	1,127,418	1,106,726

The outstanding unutilised facilities as of 31 December 2011 amounted to AED 1,231 million (2010: AED 1,147 million).

The outstanding unused portion of commitments can be revoked unilaterally at any time by the Bank provided there are reasonable grounds as per contract terms.

Notes to the financial statements (continued)
for the year ended 31 December 2011
28. Contingent liabilities and commitments (continued)

b) Contingent liabilities - maturity profile

The maturity profile of the Bank's contingent liabilities was as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 year AED'000	Total AED'000
<i>2011</i>					
Guarantees	558,761	137,019	133,067	134,716	963,563
Letters of credit	144,446	19,409	-	-	163,855
	<u>703,207</u>	<u>156,428</u>	<u>133,067</u>	<u>134,716</u>	<u>1,127,418</u>
<i>2010</i>					
Guarantees	464,750	137,527	187,231	144,371	933,879
Letters of credit	132,404	36,700	3,743	-	172,847
	<u>597,154</u>	<u>174,227</u>	<u>190,974</u>	<u>144,371</u>	<u>1,106,726</u>

The analysis of commitments and contingencies by industry sector is shown in Note 21.