
ANNUAL REPORT 2010

بنك الإمارات
للاستثمار

EMIRATES INVESTMENT BANK

Established in 1976 by
Decree of His Highness The Ruler of Dubai

Licensed by
The Central Bank of the United Arab Emirates

Board of Directors:
Omar Abdulla Al Futtaim, Chairman
Buti Obaid Al Mulla
Marwan Anthony Shehadeh

Office:
Level 15, Festival Tower, Festival City, Dubai, United Arab Emirates

Mailing address:
P O Box 5503, Dubai, United Arab Emirates

Telephone number:
04 231 7777

REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2010

The Directors are pleased to place before the shareholders of Emirates Investment Bank pjsc ("Bank") the Annual Report for the year ended 31 December 2010.

As discussed in our report last year, the 2009 financial year was a year for testing our proposition. We saw an opportunity in our market for a local private and investment banking boutique focused on high net worth individuals and their businesses, as well as institutional clients. In 2010, we started implementing plans to expand our capabilities and client relationships. Our continued success confirmed our expectations.

During 2010, our customer deposits (including deposits from banks) grew by 39%, reaching AED 718 million, while total assets reached AED 1.06 billion, an increase of 61%. In addition, our assets under management (AUMs) increased by 71% to reach AED 342 million.

Our Bank more than doubled its annual net profit to AED 20.3 million in 2010 (AED 9.8 million in 2009), while at the same time enhancing the Bank's Capital Adequacy Ratio to 31.80% (Tier I Adequacy Ratio of 30.25%), well exceeding the UAE Central Bank and Basel II requirements.

The profit this year is proposed to be appropriated as under:

	AED
- Transfer to legal reserve in accordance with the requirements of Article 58(1) of the Articles of association of the Bank	929,728
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	2,034,788
- Cash Dividend: 10% of Paid up Capital	4,493,760
- Stock Dividend: 10% of Paid up Capital	4,493,760

We are looking to accelerate the growth of our business activities in 2011 while maintaining our focused private and investment banking positioning. This will be achieved with the help of our able and expanding staff and will be supported by improved systems and processes intended to reduce risk and to comply with world class corporate governance principles.

Board of Directors
30 March 2011
Dubai, United Arab Emirates

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EMIRATES INVESTMENT BANK P.J.S.C. (FORMERLY ARAB EMIRATES
INVESTMENT BANK P.J.S.C.)**

Report on the Financial Statements

We have audited the accompanying financial statements of Emirates Investment Bank P.J.S.C. (formerly Arab Emirates Investment Bank P.J.S.C.) (the "Bank"), which comprise the statement of financial position as at 31 December 2010 and the statements of income, comprehensive income, changes in equity and 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 applicable provisions of the articles of association of the Bank, the UAE Commercial Companies Law of 1984 (as amended) and Federal Law No.10 of 1980 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.

Auditors' 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 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 auditors' judgement, 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

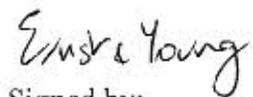
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), Federal Law No.10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank and the contents of the Directors' report relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), Federal Law No. 10 of 1980 or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.


Signed by:

Farrukh Seer
Partner
Registration No. 491

30 March 2011

Dubai, United Arab Emirates

Emirates Investment Bank P.J.S.C.
(formerly Arab Emirates Investment Bank P.J.S.C.)

INCOME STATEMENT

Year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Interest income		2,662	4,138
Net income from investments	4	<u>62,364</u>	<u>34,382</u>
		65,026	38,520
Interest expense		<u>(23,227)</u>	<u>(13,928)</u>
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		41,799	24,592
Other income	5	3,450	3,883
Exchange gain / (loss) - net		<u>10</u>	<u>(126)</u>
OPERATING INCOME		45,259	28,349
General and administrative expenses	6	(14,962)	(11,233)
Impairment loss on available for sale investments		(8,943)	(7,329)
Impairment loss on loans and advances		<u>(1,006)</u>	<u>-</u>
OPERATING EXPENSES		(24,911)	(18,562)
NET PROFIT FOR THE YEAR		20,348	9,787
BASIC AND DILUTED EARNINGS PER SHARE	7	AED 46.36	AED 21.44

The attached notes 1 to 24 form part of these financial statements.

Emirates Investment Bank P.J.S.C.
(formerly Arab Emirates Investment Bank P.J.S.C.)

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
NET PROFIT FOR THE YEAR	20,348	9,787
Other comprehensive income		
Net unrealised gain on available for sale investments	56,759	23,716
Net realised gain transferred to income statement on disposal of available for sale investments	(20,209)	(14,416)
Impairment of available for sale investments recognised in income statement	8,943	7,329
Other comprehensive income for the year	45,493	16,629
Total comprehensive income for the year	65,841	26,416

The attached notes 1 to 24 form part of these financial statements.

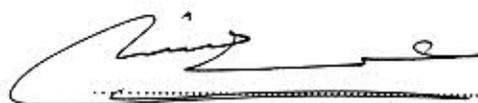
Emirates Investment Bank P.J.S.C.
(formerly Arab Emirates Investment Bank P.J.S.C.)

STATEMENT OF FINANCIAL POSITION

As 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
ASSETS			
Cash and balances with UAE Central Bank	8	6,125	6,782
Due from banks	9	118,425	96,320
Loans and advances, net	10	11,751	7,258
Investments	11	906,453	533,965
Property and equipment	12	1,606	2,104
Other assets	13	11,419	8,067
TOTAL ASSETS		1,055,779	654,496
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	14	288,901	23,000
Customer deposits		565,330	495,248
Other liabilities	15	10,587	11,613
TOTAL LIABILITIES		864,818	529,861
EQUITY			
Share capital	16	44,938	44,938
Legal reserve	16	22,469	21,539
Special reserve	16	15,877	13,842
Cumulative changes in fair values		19,607	(25,886)
Retained earnings		88,070	70,202
TOTAL EQUITY		190,961	124,635
TOTAL LIABILITIES AND EQUITY		1,055,779	654,496

The financial statements were approved by the Board of Directors on 30 March 2011 and signed on its behalf by:



Omar Abdulla Al Futtaim
(Chairman)



Buti Obaid Al Mulla
(Director)

The attached notes 1 to 24 form part of these financial statements.

Emirates Investment Bank P.J.S.C.
(formerly Arab Emirates Investment Bank P.J.S.C.)

STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
OPERATING ACTIVITIES		
Net profit for the year	20,348	9,787
Adjustments for:		
Depreciation	797	771
Profit on sale of property and equipment	-	1
Impairment loss on investments	8,943	7,329
Impairment loss on loans and advances	1,006	-
Charge relating to employees end of service benefits	379	137
Changes in due from banks with original maturities of over three months	-	(15,000)
Changes in due to banks with original maturities of over three months	120,000	-
Change in loans and advances	(5,499)	10,387
Change in other assets	(3,352)	(2,653)
Change in investments (net)	(335,938)	(217,238)
Change in customers' deposits	70,082	316,004
Change in other liabilities	(822)	4,095
Net cash (used in) / generated from operations	(124,056)	113,620
Employees' end of service benefits paid	(98)	(1)
Net cash (used in) / generated from operating activities	(124,154)	113,619
INVESTING ACTIVITIES		
Purchase of property and equipment	(299)	(92)
Proceeds from sale of property and equipment	-	2
Net cash used in investing activities	(299)	(90)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(124,453)	113,529
Cash and cash equivalents at 1 January	41,102	(72,427)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	(83,351)	41,102
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:		
Cash and balances with Central Bank	6,125	6,782
Due from banks	79,425	57,320
Due to banks	(168,901)	(23,000)
	(83,351)	41,102
Operational cash flows from interest and dividend		
Interest paid	22,650	10,354
Interest received (including from investments)	34,191	11,022
Dividend received	7,889	10,471

The attached notes 1 to 24 form part of these financial statements.

Emirates Investment Bank P.J.S.C.
(formerly Arab Emirates Investment Bank P.J.S.C.)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	<i>Share capital AED'000</i>	<i>Legal reserve AED'000</i>	<i>Special reserve AED'000</i>	<i>Cumulative changes in fair values AED'000</i>	<i>Retained earnings AED'000</i>	<i>Total AED'000</i>
At 1 January 2010	44,938	21,539	13,842	(25,886)	70,202	124,635
Net profit for the year	-	-	-	-	20,348	20,348
Other comprehensive income for the year	-	-	-	45,493	-	45,493
Total comprehensive income for the year	-	-	-	45,493	20,348	65,841
Transfers	-	930	2,035	-	(2,965)	-
Reversal of directors' fees	-	-	-	-	485	485
Balance at 31 December 2010	44,938	22,469	15,877	19,607	88,070	190,961

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

The attached notes 1 to 24 form part of these financial statements.

Emirates Investment Bank P.J.S.C.
(formerly Arab Emirates Investment Bank P.J.S.C.)

STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2010

	<i>Share capital AED'000</i>	<i>Legal reserve AED'000</i>	<i>Special reserve AED'000</i>	<i>Cumulative changes in fair values AED'000</i>	<i>Retained earnings AED'000</i>	<i>Proposed cash dividend AED'000</i>	<i>Total AED'000</i>
At 1 January 2009	44,938	20,560	12,863	(42,515)	62,523	-	98,369
Net profit for the year	-	-	-	-	9,787	-	9,787
Other comprehensive income for the year	-	-	-	16,629	-	-	16,629
Total comprehensive income for the year	-	-	-	16,629	9,787	-	26,417
Transfers	-	979	979	-	(1,958)	-	-
Directors' fees	-	-	-	-	(150)	-	(150)
Balance at 31 December 2009	<u>44,938</u>	<u>21,539</u>	<u>13,842</u>	<u>(25,886)</u>	<u>70,202</u>	<u>-</u>	<u>124,635</u>

The attached notes 1 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

1 INCORPORATION AND ACTIVITIES

Emirates Investment Bank PJSC (formerly Arab Emirates Investment Bank PJSC) (the 'Bank') was incorporated on 17 February 1976 in Dubai by a decree of HH The Ruler of Dubai as Arab Emirates Investment Bank Limited. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. The Bank is engaged in development banking business, investment banking and investment portfolio management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 50.26% of the shares in the Bank.

During the year, the Bank has changed its legal name from Arab Emirates Investment Bank P.J.S.C. to Emirates Investment Bank P.J.S.C.

2 BASIS OF PREPARATION

Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement of derivatives and available for sale investments at fair value.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank and all values are rounded to the nearest thousand (AED '000) except where otherwise stated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates law.

New accounting Standards and Interpretations:

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010.
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- IFRIC 18 Transfer of Assets from Customers effective for financial years beginning on or after 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

Adoption of the above Standards and Interpretations did not have an impact on the financial statements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

2 BASIS OF PREPARATION (continued)

IASB Standards and Interpretations issued but not adopted

The following amendments to IASB Standards and Interpretations which have been issued as of the date of the statement of financial position, have not yet been adopted by the Bank as these are effective from future dates:

- IAS 24 Related Party Disclosures effective for annual periods beginning on or after 1 January 2011
- IAS 32 Financial Instruments: Presentation - Classification of Rights Issues effective for annual periods beginning on or after 1 February 2010
- IFRS 9 Financial Instruments: Classification and Measurement effective for annual periods beginning on or after 1 January 2013
- IFRIC 14 Prepayments of a minimum funding requirement effective for annual periods beginning on or after 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective for annual periods beginning on or after 1 July 2010
- Improvements to IFRSs (issued in May 2010) effective for annual periods on or after either 1 July 2010 or 1 January 2011

Future adoption of the above Standards and Interpretations is not expected to have an impact on the financial statements of the Bank except in case of the following:

IFRS 9 Financial Instruments

The new Standard was issued by the IASB in November 2009 and becomes effective for financial years beginning on or after 1 January 2013 with early application permitted. This Standard establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the future cash flows of the Bank. The aim of this Standard is to replace IAS 39: Financial Instruments: Recognition and Measurement in its entirety through the following phases:

Phase 1: Classification and Measurement

Phase 2: Impairment Methodology

Phase 3: Hedge accounting

The future application of this Standard will result in changes in the way financial instruments are classified and measured.

Significant management judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, assumptions and judgements that affect the reporting amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advice and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

2 BASIS OF PREPARATION (continued)

Significant management judgements and estimates (continued)

Judgements

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments:

Management decides upon acquisition of an investment whether it should be classified as investments carried at fair value through profit or loss or available for sale.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

The above classification requires management's judgement.

Impairment of investments

The Bank treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Estimates for impairment losses on loans and advances take into account the probability of default and probable losses in the event of default, the value of the underlying security and realisation costs.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Bank calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

For all financial instruments measured at amortised cost and other interest bearing financial instruments including financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Other fee income and expenses are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows comprise balances with maturities of three months or less from the date of acquisition including cash and balances with UAE Central Bank, due from banks and due to banks.

Due from banks

Due from banks are stated at amortised cost using the effective interest method less allowance for impairment, if any.

Loans and advances

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest income in the income statement and the losses arising on impairment of such loans and advances are also recognised in the income statement.

Investments

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Available for sale

All securities are initially recognised at fair value plus, except for investments at fair value through profit or loss and investment in gold bullion, transaction costs that are directly attributable to the acquisition.

Investments at Fair Value Through Profit or Loss ("FVTPL")

This category has two sub-categories:

- investment securities held for trading, and;
- those designated at fair value through profit or loss at inception. Investments at fair value through profit or loss.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investment securities are designated as at FVTPL in the following circumstances:

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Available for sale

Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances.

Initial recognition

All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

Subsequent measurement

After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the income statement.

After initial recognition, available for sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined in which case they are measured at cost less accumulated impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the income statement for the year.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the Bank's rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

Fair values

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm's length market transactions, or is based on expected discounted cash flows or derived using other accepted valuation models.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates for contracts with similar maturities.

Property and equipment

Property and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and equipment	over 4 years
Motor vehicles	over 4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Deposits

All money market and customer deposits are carried at cost less amounts repaid.

Employees' end of service benefits

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

The Bank provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the unamortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement in 'Other income' on a straight line basis over the life of the guarantee.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives

Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

As the derivatives entered into do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the year.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is received from or delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not recognised in the statement of financial position.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported on the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross on the statement of financial position.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the statement of financial position date. Any resultant gains and losses are taken to the income statement.

Segment reporting

The Bank's reporting is based on the following operating segments: Development banking and Investment banking.

4 NET INCOME FROM INVESTMENTS

	<i>2010</i>	<i>2009</i>
	<i>AED'000</i>	<i>AED'000</i>
Interest income on investments in debt instruments	34,799	10,217
Gain on sale of available for sale investments	20,209	14,416
Dividend income	7,889	10,471
Portfolio management fee paid to other financial institutions	(440)	(309)
Others	(93)	(413)
	<u>62,364</u>	<u>34,382</u>

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5 OTHER INCOME

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Portfolio management fee	1,357	699
Fees, commission and other income	2,093	3,184
	<u>3,450</u>	<u>3,883</u>

6 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Staff costs	10,161	6,152
Depreciation	797	771
Rental costs – operating leases	1,682	1,874
Consultancy charges	52	394
Others	2,270	2,042
	<u>14,962</u>	<u>11,233</u>

7 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year, net of directors' fees, of AED 20,833 thousand (2009: AED 9,637 thousand) by the weighted average number of shares outstanding during the year of 449,376 of AED 100 each (2009: 449,376 shares of AED 100 each).

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

8 CASH AND BALANCES WITH UAE CENTRAL BANK

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Cash in hand	25	23
Balances with UAE Central Bank:		
Current account	1,522	3,304
Reserve requirements	4,578	3,455
	<u>6,125</u>	<u>6,782</u>

The reserve requirements are kept with the UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with UAE Central Bank directives and is based on the balance of outstanding customer deposits.

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9 DUE FROM BANKS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Domestic	90,443	89,992
Regional	959	-
International	27,023	6,328
	<u>118,425</u>	<u>96,320</u>

Included in due from banks is a term deposit of AED 90,000 thousand (2009: 59,000 thousand) with a counter party in UAE. This deposit has been liened to the extent of AED 39,000 thousand (2009: AED 39,000 thousand) against facilities granted by the counter party to the Bank.

10 LOANS AND ADVANCES, NET

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Commercial and business:		
Loans (secured)	10,331	2,357
Overdrafts / loans (unsecured)	2,426	4,901
	<u>12,757</u>	<u>7,258</u>
Less: collective impairment provision	(1,006)	-
	<u>11,751</u>	<u>7,258</u>

At 31 December 2010, there were no loans individually determined to be impaired and accordingly, no specific provisions were considered necessary in respect of any of the loans and advances provided by the Bank (2009: Nil). Bank's loans and advances comprise amounts provided to customers within the UAE (2009: 100%).

Based on the assessment of health of the overall loans and advances portfolio, and also in compliance with the directive of the Central Bank of UAE, the Bank has determined a collective impairment provision amounting to AED 1,006 thousand (2009: Nil) against risk of default incurred but not yet identified.

11 INVESTMENTS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
<i>Available for sale investments</i>		
<i>Debt</i>		
Quoted	731,466	331,799
<i>Equity</i>		
Quoted	129,580	157,395
Unquoted	37,503	44,771
	<u>167,083</u>	<u>202,166</u>
Total available for sale investments	<u>898,549</u>	<u>533,965</u>
Investment in bullion	7,904	-
Total investments	<u>906,453</u>	<u>533,965</u>

Investment in bullion represents an investment in physical gold which is being carried at cost. The Bank has assessed this for impairment and concluded that no provision is required.

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11 INVESTMENTS (continued)

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Equity investments:		
Domestic	123,180	144,068
Regional	8,562	22,047
International	35,341	36,051
	<u>167,083</u>	<u>202,166</u>
Debt investments:		
Domestic	688,494	297,448
Regional	19,651	15,332
International	23,321	19,019
	<u>731,466</u>	<u>331,799</u>
Investment in bullion	<u>7,904</u>	-
	<u>906,453</u>	<u>533,965</u>

Debt investments with carrying value amounting to AED 294 million (2009: AED nil) are held in custody with another bank and are held as security against the overdraft facility (see note 14).

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

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

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

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

As at 31 December 2010, the Bank held the following investments measured at fair value:

	<i>31 December</i> <i>2010</i> <i>AED'000</i>	<i>Investments carried at fair value</i>			<i>Investments</i> <i>carried</i> <i>at cost</i> <i>AED'000</i>
		<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	
Equity investments:					
Domestic	123,180	65,720	51,873	1,508	4,079
Regional	8,562	23	7,018	-	1,521
International	35,341	4,072	25,479	-	5,790
Debt investments:					
Domestic	688,494	688,494	-	-	-
Regional	19,651	19,651	-	-	-
International	23,321	23,321	-	-	-
	<u>898,549</u>	<u>801,281</u>	<u>84,370</u>	<u>1,508</u>	<u>11,390</u>

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11 INVESTMENTS (continued)

	31 December 2009 AED'000	Investments carried at fair value			Investments carried at cost AED'000
		Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	
Equity investments:					
Domestic	144,068	117,996	20,548	1,445	4,079
Regional	22,047	7,646	10,565	-	3,836
International	36,051	3,431	26,853	-	5,767
Debt investments:					
Domestic	297,448	297,448	-	-	-
Regional	15,332	15,332	-	-	-
International	19,019	19,019	-	-	-
	<u>533,965</u>	<u>460,872</u>	<u>57,966</u>	<u>1,445</u>	<u>13,682</u>

During the current year, investments amounting to AED 43,092 thousand (2009: AED 13,910 thousand) were transferred from Level 1 to Level 2 fair value measurements while an amount of AED 11,286 thousand (2009: AED 375 thousand) was transferred from Level 2 to Level 1 fair value measurements.

The transfers from Level 1 to Level 2 were made as during the year there was no active market for certain securities while transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again during the year.

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	2010 AED'000	2009 AED'000
At 1 January	1,445	4,353
Total net unrealised gain recorded in equity	63	381
Impairment loss on Level 3 investments	-	(721)
Transfer to level 2	-	(2,568)
At 31 December	<u>1,508</u>	<u>1,445</u>

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12 PROPERTY AND EQUIPMENT

	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2010	3,442	113	3,555
Additions during the year	299	-	299
At 31 December 2010	3,741	113	3,854
Accumulated depreciation:			
At 1 January 2010	1,338	113	1,451
Charge for the year	797	-	797
At 31 December 2010	2,135	113	2,248
Net carrying values:			
At 31 December 2010	1,606	-	1,606

	<i>Furniture and equipment AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2009	3,640	113	3,753
Additions during the year	92	-	92
Disposals during the year	(290)	-	(290)
At 31 December 2009	3,442	113	3,555
Accumulated depreciation:			
At 1 January 2009	861	107	968
Charge for the year	765	6	771
Relating to disposals	(288)	-	(288)
At 31 December 2009	1,338	113	1,451
Net carrying values:			
At 31 December 2009	2,104	-	2,104

13 OTHER ASSETS

	<i>2010 AED'000</i>	<i>2009 AED'000</i>
Interest receivable	8,798	5,529
Other receivables and prepayments	2,621	2,538
	11,419	8,067

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14 DUE TO BANKS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Term placements	153,000	23,000
Overdraft facility	135,901	-
	<u>288,901</u>	<u>23,000</u>

15 OTHER LIABILITIES

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Interest payable	5,005	4,427
Employees' end of service benefits	891	610
Others	4,691	6,576
	<u>10,587</u>	<u>11,613</u>

In accordance with the UAE Labour Law, the Bank provides for end of service benefit for its expatriate employees. Movements in the liability recognised on the statement of financial position in respect of end of service benefits are as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Liability as at 1 January	610	473
Expense recognised in the income statement	379	138
Amount paid during the year	(98)	(1)
Liability as at 31 December	<u>891</u>	<u>610</u>

16 SHARE CAPITAL AND RESERVES

a) **Share capital**

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2009: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 449,376 ordinary shares of AED 100 each (2009: 449,376 ordinary shares of AED 100 each).

b) **Legal reserve**

In accordance with the Commercial Companies Law Number 8 of 1984 (as amended) and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to legal reserve till the reserve equals 50% of the paid-up share capital. During the year, the reserve is equal to 50% of the paid-up share capital, and the Bank has resolved to discontinue further transfer. This reserve is not available for distribution.

c) **Special reserve**

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

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17 DIVIDENDS PAID AND PROPOSED

No dividend has been declared or paid during the current year.

18 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities

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

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

The Bank has the following commitments:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Guarantees	<u>151,765</u>	<u>116,849</u>
Irrevocable un-drawn loan commitments	<u>120,000</u>	<u>-</u>

Other commitments:

The Bank has commitments totalling to AED 1,977 thousand (2009: AED 2,023 thousand) on account of investments made in securities and limited partnership funds. The Bank has to pay as and when calls are made by the funds' managers/investee company.

19 RELATED PARTY TRANSACTIONS

The Bank enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

The significant balances outstanding at 31 December in respect of related parties included in the financial statements are as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	1,837	72
Customers' deposits	223,581	234,209
IT related assets	45	-
Commitments and contingencies	126,919	101,820

The income and expenses in respect of related parties included in the financial statements are as follows:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
<i>Directors, their related parties and key management personnel:</i>		
Interest income	20	35
Interest expense	8,579	2,611
Commission and fees	1,872	677
Rental costs – operating leases	1,445	1,579
Interest expense	306	-
IT related cost	244	-

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19 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel:

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Salaries and other benefits	<u>5,171</u>	<u>4,266</u>

20 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to Credit risk, Liquidity risk and Market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board of Directors has the responsibility to monitor the overall risk process within the Bank. They also have the overall responsibility for the development of the risk strategy and implementing principles, framework, process and limits. It is responsible for the fraud and other risk related matters and manages and monitors relevant risk decisions.

Bank Treasury

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

Internal Audit

Risk management processes throughout the Bank are audited bi-annually by an outsourced internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Chief Executive Officer.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

A daily briefing is given to the relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

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20 RISK MANAGEMENT (continued)

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions. The Bank also constantly monitor their portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has an internal credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

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

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

	<i>Notes</i>	<i>Gross maximum exposure 2010 AED'000</i>	<i>Gross maximum exposure 2009 AED'000</i>
Balances with UAE Central Bank (excluding cash on hand)	8	6,100	6,759
Due from banks	9	118,425	96,320
Loans and advances	10	12,757	7,258
Investments in debt instruments	11	731,466	331,798
Other assets		10,989	7,661
		<u>879,737</u>	<u>449,796</u>
Guarantees	18	151,765	116,849
		<u>151,765</u>	<u>116,849</u>
Total credit risk exposure		<u><u>1,031,502</u></u>	<u><u>566,645</u></u>

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20 RISK MANAGEMENT (continued)

Credit risk (continued)

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2010 was AED 90,000 thousand (2009: AED 59,000 thousand) before taking account of collateral or other credit enhancements and AED 90,000 thousand (2009: AED 59,000 thousand) net of such protection. This analysis does not include investment in debt instruments.

The Bank's financial instruments (excluding cash in hand and investments in equity securities), before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2010			2009		
	<i>Assets AED'000</i>	<i>Liabilities AED'000</i>	<i>Contingent liabilities and commitments AED'000</i>	<i>Assets AED'000</i>	<i>Liabilities AED'000</i>	<i>Contingent liabilities and commitments AED'000</i>
United Arab Emirates	807,772	541,336	151,765	408,412	499,660	116,849
North America	6,890	239	-	3,427	234	-
Latin America	2,484	-	-	4,045	-	-
Europe	17,094	138,888	-	4,924	2,171	-
Asia Pacific	14,314	42,598	-	10,840	19,669	-
GCC & other ME	31,183	140,866	-	18,149	7,517	-
	<u>879,737</u>	<u>863,927</u>	<u>151,765</u>	<u>449,797</u>	<u>529,251</u>	<u>116,849</u>

An industry sector analysis of the Bank's financial assets (excluding cash in hand and investments in equity securities) including contingent liabilities, before taking into account collateral held or other credit enhancements, is as follows:

	2010 AED'000	2009 AED'000
Commercial and business	366,970	219,023
Banks and financial institutions	149,792	114,641
Government entities	514,712	232,776
Others	28	206
	<u>1,031,502</u>	<u>566,646</u>

Collateral and other credit enhancements

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

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20 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of gross assets for certain key lines of statement of financial position, based on the Bank's internal credit rating system.

	<i>Neither past due nor impaired</i>			<i>Total 2010 AED'000</i>
	<i>High grade 2010 AED'000</i>	<i>Standard grade 2010 AED'000</i>	<i>Sub- standard grade 2010 AED'000</i>	
Due from banks	118,425	-	-	118,425
Loans and advances	4,265	8,492	-	12,757
Investments in debt instruments	597,358	45,317	88,791	731,466
	<u>720,048</u>	<u>53,809</u>	<u>88,791</u>	<u>862,648</u>

	<i>Neither past due nor impaired</i>			<i>Total 2009 AED'000</i>
	<i>High grade 2009 AED'000</i>	<i>Standard grade 2009 AED'000</i>	<i>Sub- standard grade 2009 AED'000</i>	
Due from banks	96,320	-	-	96,320
Loans and advances	1,531	3,306	-	4,837
Investments in debt instruments	273,883	25,486	32,429	331,798
	<u>371,734</u>	<u>28,792</u>	<u>32,429</u>	<u>432,955</u>

As at the year end, the Bank has an amount of AED nil (2009: AED 2,421 thousand) in loans and advances which was past due. However, management believes that it was not impaired.

Credit risk exposure of the Bank's financial assets (excluding cash in hand and instruments in equity instruments) including contingent liabilities for each internal risk rating

	<i>Moody's equivalent grades</i>	<i>Total 2010 AED'000</i>	<i>Total 2009 AED'000</i>
Prime grade	Aaa	621,986	309,157
High grade	Aa1-Aa3	104,161	69,336
Standard grade	Baa-Baa3	216,564	155,723
Sub-standard grade	Ba-B3	88,791	32,220
Impaired	C	-	209
		<u>1,031,502</u>	<u>566,645</u>

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20 RISK MANAGEMENT (continued)

Credit risk (continued)

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

Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of saving deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

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20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

<i>31 December 2010</i>	<i>Less than 3 months AED'000</i>	<i>From 3 months to 6 months AED'000</i>	<i>From 6 months to 12 months AED'000</i>	<i>Sub total less than 12 months AED'000</i>	<i>1-5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Sub total over 12 months AED'000</i>	<i>Undated AED'000</i>	<i>Total AED'000</i>
ASSETS									
Cash and balances with UAE Central Bank	6,125	-	-	6,125	-	-	-	-	6,125
Due from banks	79,425	-	39,000	118,425	-	-	-	-	118,425
Loans and advances	7,140	2,679	-	9,819	1,932	-	1,932	-	11,751
Investments	-	3,819	1,782	5,601	615,407	110,458	725,865	174,987	906,453
Property and equipment	-	-	-	-	-	-	-	1,606	1,606
Other assets	11,419	-	-	11,419	-	-	-	-	11,419
Total assets	104,109	6,498	40,782	151,389	617,339	110,458	727,797	176,593	1,055,779
LIABILITIES AND EQUITY									
Due to banks	168,901	-	-	168,901	120,000	-	120,000	-	288,901
Customer deposits	348,775	117,116	89,211	555,102	10,228	-	10,228	-	565,330
Other liabilities	10,587	-	-	10,587	-	-	-	-	10,587
Equity	-	-	-	-	-	-	-	190,961	190,961
Total liabilities and equity	528,263	117,116	89,211	734,590	130,228	-	130,228	190,961	1,055,779
Net liquidity gap	(424,154)	(110,618)	(48,429)	(583,201)	487,111	110,458	597,569	(14,368)	

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20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2009	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	6,782	-	-	6,782	-	-	-	-	6,782
Due from banks	57,320	39,000	-	96,320	-	-	-	-	96,320
Loans and advances	7,258	-	-	7,258	-	-	-	-	7,258
Investments	-	9,238	1,449	10,687	280,400	40,711	321,111	202,167	533,965
Property and equipment	-	-	-	-	-	-	-	2,104	2,104
Other assets	8,067	-	-	8,067	-	-	-	-	8,067
Total assets	79,427	48,238	1,449	129,114	280,400	40,711	321,111	204,271	654,496
LIABILITIES AND EQUITY									
Due to banks	23,000	-	-	23,000	-	-	-	-	23,000
Customer deposits	324,222	122,412	48,614	495,248	-	-	-	-	495,248
Other liabilities	11,613	-	-	11,613	-	-	-	-	11,613
Equity	-	-	-	-	-	-	-	124,635	124,635
Total liabilities and equity	358,835	122,412	48,614	529,861	-	-	-	124,635	654,496
Net liquidity gap	(279,408)	(74,174)	(47,165)	(400,747)	280,400	40,711	321,111	79,636	

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At 31 December 2010

20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at the year-end based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows based on Bank's deposit retention history.

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
2010						
Due to banks	-	169,061	-	126,550	-	295,611
Customer deposits	22,380	327,366	212,369	10,807	-	572,922
Other liabilities	10,587	-	-	-	-	10,587
Total undiscounted financial liabilities	32,967	496,427	212,369	137,357	-	879,120
2009						
Due to banks	-	23,013	-	-	-	23,013
Customer deposits	26,999	234,852	237,811	-	-	499,662
Other liabilities	11,003	-	-	-	-	11,003
Total undiscounted financial liabilities	38,002	257,865	237,811	-	-	533,678

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities:

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
2010						
Contingent liabilities	-	-	116,765	35,000	-	151,765
2009						
Contingent liabilities	-	-	116,849	-	-	116,849

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

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20 RISK MANAGEMENT (continued)

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Investment Committee.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values 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 and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Board has established levels of interest rate risk by setting interest rate sensitivity limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's income statement and equity.

<i>Increase in basis points</i>	<i>Impact on net profit 2010 AED'000</i>	<i>Impact on equity 2010 AED'000</i>	<i>Impact on net profit 2009 AED'000</i>	<i>Impact on equity 2009 AED'000</i>
100	(4,686)	(18,290)	(2,612)	(7,752)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at year-end on its non trading monetary assets and liabilities and their forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the equity (due to the fair value of currency sensitive non trading monetary assets which mainly relates to available for sale investments). A negative amount in the table reflects a potential net reduction in equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate in % 2010</i>	<i>Effect on equity 2010 AED'000</i>	<i>Change in currency rate in % 2009</i>	<i>Effect on equity 2009 AED'000</i>
Euro	+10	880	+10	908
Pound Sterling	+10	556	+10	760
Kuwaiti Dinar	+10	90	+10	-

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20 RISK MANAGEMENT (continued)

Currency risk (continued)

Since UAE Dirham is on a fixed parity to the US Dollar therefore the management believes that presently the Bank is not exposed to any significant foreign currency risk in respect of US Dollar.

Equity price risk

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

The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2010 %</i>	<i>Effect on equity 2010 AED'000</i>	<i>Change in equity price 2009 %</i>	<i>Effect on equity 2009 AED'000</i>
New York Stock Exchange	+10	377	+10	335
Abu Dhabi Securities Market	+10	5,626	+10	8,477
Dubai Financial Market	+10	6,135	+10	5,377
Others	+10	4,570	+10	1,551

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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21 SEGMENTAL ANALYSIS

For operating purposes, the Bank is organised into two major business segments: Development Banking, which principally provides loans and other credit facilities and deposit and current accounts for corporate and individual customers and Investment Banking, which involves the management of the Bank's own investment portfolio and treasury services and providing investment portfolio management services. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

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

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Interest income, net income from investment, other income and exchange (loss) / gain less impairment loss on investments and loans and advances	3,758	7,195	54,779	27,752	58,537	34,947
Inter-segment adjustment	25,312	15,150	(25,312)	(15,150)	-	-
	<u>29,070</u>	<u>22,345</u>	<u>29,467</u>	<u>12,602</u>	<u>58,537</u>	<u>34,947</u>
Net profit for the year	<u>3,848</u>	<u>6,415</u>	<u>16,500</u>	<u>3,372</u>	<u>20,348</u>	<u>9,787</u>

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Segment assets	<u>140,721</u>	<u>116,614</u>	<u>915,058</u>	<u>537,882</u>	<u>1,055,779</u>	<u>654,496</u>
Segment liabilities	<u>864,818</u>	<u>529,861</u>	<u>-</u>	<u>-</u>	<u>864,818</u>	<u>529,861</u>

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22 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates. The fair values of the financial instruments appearing in the statement of financial position of the Bank are not materially different from their carrying values at year end, since assets and liabilities are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits, frequently repriced.

These financial instruments have been classified for the purpose of IAS 39 as follows:

<i>31 December 2010</i>	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	6,125	6,125
Due from banks	-	-	-	118,425	118,425
Loans and advances	-	-	11,751	-	11,751
Investments	-	898,549	-	-	898,549
Others	-	-	-	10,989	10,989
	<u>-</u>	<u>898,549</u>	<u>11,751</u>	<u>135,539</u>	<u>1,045,839</u>
Financial liabilities					
Due to banks	-	-	-	288,901	288,901
Customer deposits	-	-	-	565,330	565,330
Others	-	-	-	9,696	9,696
	<u>-</u>	<u>-</u>	<u>-</u>	<u>863,927</u>	<u>863,927</u>
31 December 2009					
	<i>At fair value through profit or loss AED'000</i>	<i>Available for sale AED'000</i>	<i>Loans and receivables AED'000</i>	<i>Amortised cost AED'000</i>	<i>Total AED'000</i>
Financial assets					
Cash and balances with UAE Central Bank	-	-	-	6,782	6,782
Due from banks	-	-	-	96,320	96,320
Loans and advances	-	-	7,258	-	7,258
Investments	-	533,965	-	-	533,965
Others	-	-	-	7,661	7,661
	<u>-</u>	<u>533,965</u>	<u>7,258</u>	<u>110,763</u>	<u>651,986</u>
Financial liabilities					
Due to banks	-	-	-	23,000	23,000
Customer deposits	-	-	-	495,248	495,248
Others	-	-	-	11,003	11,003
	<u>-</u>	<u>-</u>	<u>-</u>	<u>529,251</u>	<u>529,251</u>

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23 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

Capital management

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

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

The risk asset ratio calculations, in accordance with the capital adequacy guidelines established for the global banking industry, are as follows:

RISK WEIGHTED EXPOSURES

	<i>Balance</i>		<i>Risk weighted equivalents</i>	
	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	523,344	225,911	-	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	502,262	413,513	407,522	336,457
Claims at 100%	31,180	15,072	31,180	15,072
	<u>1,056,786</u>	<u>654,496</u>	<u>438,702</u>	<u>351,529</u>
Off balance sheet items (note 19)				
Letters of guarantee	151,765	116,849	127,840	103,310
Credit risk weighted assets and off balance sheet items			566,542	454,839
Market risk weighted assets and off balance sheet items			-	-
Total risk weighted assets			<u>566,542</u>	<u>454,839</u>
Risk asset ratio			<u>31.80%</u>	<u>27.40%</u>

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23 CAPITAL ADEQUACY (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings (including current year profit), and legal and special reserves. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital which includes cumulative changes in fair values.

24 FIDUCIARY ASSETS

	<i>2010</i> <i>AED'000</i>	<i>2009</i> <i>AED'000</i>
Balance as at 31 December	<u>342,470</u>	<u>199,775</u>

The Bank manages investments on behalf of its customers. These investments are held by the Bank in a fiduciary capacity and are, accordingly, not included in these financial statements as assets of the Bank.