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**ANNUAL REPORT 2008**

**ARAB EMIRATES INVESTMENT BANK (pjsc)**

**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**

**Offices:  
Level 9, Twin Towers Building, Baniyas Street, Dubai, United Arab Emirates  
Level 15, Festival Tower, Festival City, Dubai, United Arab Emirates**

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

**Telephone numbers:  
04 222 2191 and 04 232 8080**

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**REPORT OF THE BOARD OF DIRECTORS**  
**For the year ended 31 December 2008**

The Directors have pleasure in placing before the shareholders the Annual Report for the year ended 31 December 2008.

The 2008 financial year was a difficult one for the financial services industry everywhere. The US subprime mortgage crisis led the world into an aggressive deleveraging cycle and our own markets were not spared. The Dubai Financial Market index fell more than 70% and the other regional markets closed the 2008 year significantly below their previous peaks as well.

As a result of a sudden drop in overall deposits, the combined loan portfolios of all UAE banks exceeded the aggregate of all deposits in the system. This, among other factors, caused a significant systematic reduction in available liquidity. Various interventions by the Central Bank of the UAE and the UAE government were instrumental in gradually bringing liquidity back into the banking system. However, the need to improve banks' loan to deposit ratios led to an unhealthy environment of increasing deposit interest rates (as the banks competed for liquidity) and a decrease in available lending facilities.

Our Bank does not maintain a significant loan portfolio. Our assets are composed primarily of marketable securities that are by their nature very liquid. Hence, we did not face a liquidity crisis. We had ample capacity to sell assets if the need arose to address any demand from our depositors and other counterparties. Fortunately, we were able to navigate our way without having to permanently dispose of assets at depressed market prices. Instead, we managed to increase our liabilities to AED 276,473,252 from AED 264,512,496 at the end of 2007. The confidence our depositors and other counterparties have shown in our Bank confirmed our belief that there is a role for small, well run, banking boutiques in the UAE. These days, "small" is again considered "beautiful" as customers appear to be showing a preference for dealing with easy to understand smaller institutions over large complex groups.

Our Bank made a profit of AED 598,373 in 2008 as compared to a profit of AED 26,466,602 for the previous year. This decline in profit is mainly a result of a one-off impairment loss in the investments portfolio amounting to AED 76,403,798. The reduction in the market value of the Bank's marked to market investments contributed to a reduction of total assets of the Bank to AED 374,842,104 from AED 605,335,269 at the end of 2007.

The profit for the year is proposed to be appropriated as under:

	<i>AED</i>
— Transfer to legal reserve in accordance with the requirements of article 58 (1) of the articles of association of the Bank	<u>59,837</u>
— Transfer to special reserve in accordance with the requirements of article 58 (2) of the articles of association of the Bank	<u>59,837</u>

In times of uncertainty, participants in financial transactions need to be confident of the soundness of their counterparties. In assessing soundness, counterparties look at capital adequacy and equity gearing ratios, among other indicators. Capital adequacy ratios are a measure of a bank's capital expressed as a percentage of risk weighted assets. Our Bank's capital adequacy ratio (Tier 1) is 28.75 % (8% being the common requirement by Basel Accords). Equity gearing ratios are good indicators of the level of leverage (hence, risk) used by financial institutions; the lower the equity gearing ratio, the lower the risk exposure. Our Bank's equity gearing ratio as of the end of 2008 stood at 3.8 times (as compared with more than 12 times for prominent global investment banks).

Therefore, our counterparties can feel confident that they are transacting with a very sound bank despite the prevailing difficult financial environment.

Board of Directors  
30 March 2009  
Dubai, United Arab Emirates

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB EMIRATES INVESTMENT BANK PUBLIC JOINT STOCK COMPANY**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Arab Emirates Investment Bank P.J.S.C. (the 'Bank'), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *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 2008, 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.

Ernst & Young

Signed by:  
Edward B Quinlan  
Partner  
Registration No. 93

30 March 2009  
Dubai, United Arab Emirates

Arab Emirates Investment Bank P.J.S.C.

INCOME STATEMENT

Year ended 31 December 2008

	<i>Notes</i>	<i>2008</i> <i>AED</i>	<i>2007</i> <i>AED</i>
Interest income		<b>2,762,386</b>	4,025,220
Net income from investments	4	<b>97,087,137</b>	40,572,822
		<u>99,849,523</u>	<u>44,598,042</u>
Interest expense		<b>(10,302,858)</b>	(15,318,371)
		<u>89,546,665</u>	<u>29,279,671</u>
<b>NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS</b>		<b>89,546,665</b>	29,279,671
Other income	5	<b>1,006,634</b>	1,234,279
Exchange (loss) / gain - net		<b>(2,106,094)</b>	1,273,607
		<u>88,447,205</u>	<u>31,787,557</u>
<b>OPERATING INCOME</b>		<b>88,447,205</b>	31,787,557
General and administrative expenses	6	<b>(11,445,034)</b>	(5,320,955)
Impairment loss on investments		<b>(76,403,798)</b>	-
		<u>(87,848,832)</u>	<u>(5,320,955)</u>
<b>OPERATING EXPENSES</b>		<b>(87,848,832)</b>	(5,320,955)
<b>NET PROFIT FOR THE YEAR</b>		<b>598,373</b>	26,466,602
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	7	<b>1.00</b>	58.56

# Arab Emirates Investment Bank P.J.S.C.

## BALANCE SHEET

At 31 December 2008

	<i>Notes</i>	<b>2008</b> <b>AED</b>	<b>2007</b> <b>AED</b>
<b>ASSETS</b>			
Cash and balances with UAE Central Bank	8	<b>3,063,247</b>	4,939,244
Due from banks	9	<b>38,509,514</b>	49,459,008
Loans and advances	10	<b>17,645,176</b>	25,450,733
Investments	11	<b>307,425,428</b>	512,632,852
Property and equipment	12	<b>2,784,394</b>	153,911
Other assets	13	<b>5,414,345</b>	12,699,521
<b>TOTAL ASSETS</b>		<b><u>374,842,104</u></b>	<b><u>605,335,269</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks		<b>90,000,000</b>	32,000,000
Customer deposits		<b>179,243,894</b>	229,026,965
Other liabilities	14	<b>7,229,358</b>	3,485,531
<b>TOTAL LIABILITIES</b>		<b><u>276,473,252</u></b>	<b><u>264,512,496</u></b>
<b>EQUITY</b>			
Share capital	15	<b>44,937,600</b>	44,937,600
Legal reserve	15	<b>20,560,422</b>	20,500,585
Special reserve	15	<b>12,863,271</b>	12,803,434
Cumulative changes in fair values	17	<b>(42,515,365)</b>	191,549,409
Retained earnings		<b>62,522,924</b>	62,044,225
Proposed cash dividend	16	-	8,987,520
<b>TOTAL EQUITY</b>		<b><u>98,368,852</u></b>	<b><u>340,822,773</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>374,842,104</u></b>	<b><u>605,335,269</u></b>

The financial statements were approved by the Board of Directors on 30 March 2009 and signed on its behalf by:

Omar Abdulla Al Futtaim  
(Chairman)

Buti Obaid Al Mulla  
(Director)

# Arab Emirates Investment Bank P.J.S.C.

## CASH FLOW STATEMENT

Year ended 31 December 2008

	<i>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	598,373	26,466,602
Adjustments for:		
Depreciation	342,475	158,807
Profit on sale of property and equipment	(63,627)	(21,379)
Impairment loss on investments	76,403,798	-
Changes in due from banks for more than three months	(24,000,000)	-
Change in loans and advances	7,805,557	14,853,047
Change in other assets	7,285,176	(4,747,361)
Change in investments (net)	(105,261,148)	(15,225,390)
Change in customers' deposits	(49,783,071)	40,491,643
Change in other liabilities	3,743,827	296,947
Net cash (used in) / generated from operating activities	<u>(82,928,640)</u>	<u>62,272,916</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(3,185,233)	(22,512)
Proceeds from sale of property and equipment	275,902	43,400
Net cash (used in) / generated from investing activities	<u>(2,909,331)</u>	<u>20,888</u>
<b>FINANCING ACTIVITIES</b>		
Dividend paid	(8,987,520)	(6,740,265)
Directors' fees	-	(150,000)
Net cash used in financing activities	<u>(8,987,520)</u>	<u>(6,890,265)</u>
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(94,825,491)</b>	<b>55,403,539</b>
Cash and cash equivalents at 1 January	<u>22,398,252</u>	<u>(33,005,287)</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b><u>(72,427,239)</u></b>	<b><u>22,398,252</u></b>
Cash and cash equivalents comprise the following balance sheet amounts with original maturities of three months or less:		
Cash and balances with Central Bank	3,063,247	4,939,244
Due from banks for less than three months	14,509,514	49,459,008
Due to banks	(90,000,000)	(32,000,000)
	<u>(72,427,239)</u>	<u>22,398,252</u>
<b>Operational cash flows from interest and dividend</b>		
Interest paid	10,446,443	15,437,538
Interest received (including from investments)	6,742,317	8,950,056
Dividend received	11,024,533	11,379,907

Arab Emirates Investment Bank P.J.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Retained earnings AED</i>	<i>Proposed cash dividend AED</i>	<i>Total AED</i>
At 1 January 2008	44,937,600	20,500,585	12,803,434	191,549,409	62,044,225	8,987,520	340,822,773
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	(234,064,774)	-	-	(234,064,774)
Total income and expense for the year recognised directly in equity	-	-	-	(234,064,774)	-	-	(234,064,774)
Net profit for the year	-	-	-	-	598,373	-	598,373
<b>Total income and expense for the year</b>	-	-	-	<b>(234,064,774)</b>	<b>598,373</b>	-	<b>(233,466,401)</b>
Transfers	-	59,837	59,837	-	(119,674)	-	-
Cash dividends paid – 2007	-	-	-	-	-	(8,987,520)	(8,987,520)
<b>Balance at 31 December 2008</b>	<b>44,937,600</b>	<b>20,560,422</b>	<b>12,863,271</b>	<b>(42,515,365)</b>	<b>62,522,924</b>	-	<b>98,368,852</b>

Arab Emirates Investment Bank P.J.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Retained earnings AED</i>	<i>Proposed cash dividend AED</i>	<i>Total AED</i>
At 1 January 2007	44,935,100	17,853,925	10,156,774	97,198,365	50,008,463	6,740,265	226,892,892
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	94,351,044	-	-	94,351,044
Total income and expense for the year recognised directly in equity	-	-	-	94,351,044	-	-	94,351,044
Net profit for the year	-	-	-	-	26,466,602	-	26,466,602
<b>Total income and expense for the year</b>	-	-	-	94,351,044	26,466,602	-	120,817,646
Cash dividends paid – 2006	-	-	-	-	-	(6,740,265)	(6,740,265)
Scrip dividend – 2005	2,500	-	-	-	-	-	2,500
Transfers	-	2,646,660	2,646,660	-	(5,293,320)	-	-
Directors' fees	-	-	-	-	(150,000)	-	(150,000)
Proposed cash dividend – 2007 (20 %)	-	-	-	-	(8,987,520)	8,987,520	-
Balance at 31 December 2007	44,937,600	20,500,585	12,803,434	191,549,409	62,044,225	8,987,520	340,822,773

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**1 INCORPORATION AND ACTIVITIES**

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.

**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.

**Statement of compliance**

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

**New accounting Standards and Interpretations:**

The Bank has adopted the following new and amended IFRS and IFRIC Interpretations during the year. Adoption of these revised Standards and Interpretations did not have any significant effect on the financial performance or position of the Bank. They did however give rise to additional disclosures.

IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these new Standards are as follows:

*IFRIC 11 IFRS 2 - Company and Treasury Share Transactions*

This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the financial position or performance of the Bank as the Bank has not issued any instruments.

*IFRIC 12 Service Concession Arrangements*

This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Bank does not act as an operator and hence this Interpretation will have no impact on the financial statements of the Bank.

*IFRIC 14 IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. This Interpretation will have no impact on the financial position or performance of the Bank as there are no defined benefit schemes currently in place.

**IASB Standards and Interpretations issued but not adopted**

*Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements*

The amendments to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. Both revisions will be effective for financial years beginning on or after 1 January 2009. The revision to IAS 27 will have to be applied retrospectively. This amendment will not have any impact on the financial statements of the Bank.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**2 BASIS OF PREPARATION (continued)**

**IASB Standards and Interpretations issued but not adopted (continued)**

*Amendments to IFRS 2 Share-based Payment*

The IASB issued an amendment to IFRS 2 in January 2008 which becomes effective for the annual periods beginning on or after 1 January 2009. This amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. This amended Standard will have no impact on the financial position or performance of the Bank as no such awards have been issued / granted by the Bank.

*IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*

The revised Standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact on the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. This amendment will not have any impact on the financial statements of the Bank.

*IFRS 8 Operating Segments*

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new Standard may require changes in the way the Bank discloses information about its operating segments.

*IAS 1 Presentation of Financial Statements*

A revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for the annual periods commencing on or after 1 January 2009. The application of the Standard will result in amendments to the presentation of financial statements.

*IAS 23 Borrowing Costs*

A revised IAS 23 Borrowing Costs was issued in March 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

*IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

These amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for financial years beginning on or after 1 January 2009. The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfill a number of specified features. The amendments to the Standards will have no impact on the financial position or performance of the Bank, as the Bank has not issued any such instruments.

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

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk or portion in particular situations. It clarified that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Bank has concluded that the amendment will have no impact on the financial position or performance of the Bank, as the Bank has not entered into any such hedges.

*IFRIC 15 Agreement for the Construction of Real Estate*

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is complete. Furthermore the Interpretation provides guidance on how to determine whether an

## 2 BASIS OF PREPARATION (continued)

### **IASB Standards and Interpretations issued but not adopted (continued)**

agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the financial statement because the Bank does not conduct such activity.

#### *IFRIC 16 Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2009. The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Bank the hedging instrument can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This Interpretation will not have an impact on the financial statement because the Bank does not have any such hedges.

#### *Improvements to IFRSs*

In May 2008 IASB issued its first omnibus of amendments to its Standards primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each Standard. All such improvements are applicable from future dates and the Bank has concluded that there is no significant impact on its financial statements of any changes made by IASB in its Standards as part of such improvements.

### **Significant management judgements and estimates**

#### **Judgements**

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

#### *Classification of investments:*

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

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Bank has the intention and ability to hold these to maturity.

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.

#### *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.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**2 BASIS OF PREPARATION (continued)**

**Significant management judgements and estimates (continued)**

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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. 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.

*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.

**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 interest bearing 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 comprise balances with maturities of three months or less from the date of acquisition including cash and balances with Central Bank, deposits with banks and other financial institutions.

**Due from banks**

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

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 and similar income in the income statement and the losses arising on impairment of such loans and advances are recognised in the income statement in the provision for credit losses.

**Investments**

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Held to maturity; and
- Available for sale

All 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.

*Investments at fair value through profit or loss*

Gains and losses arising from changes in fair values are included in the income statement for the year. Interest and dividends received are included in income from investments according to the terms of the contract or when the right of payment has been established.

*Held to maturity*

Securities which have fixed or determinable payments which are intended to be held to maturity are carried at amortised cost using the effective interest method, less provision for impairment in value.

Premiums and discounts on investment securities are amortised on a systematic basis to maturity using the effective interest method and taken to income statement.

*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. They include equity instruments, investments in mutual funds and money market and other debt instruments.

After initial recognition, these are remeasured at fair value unless fair value cannot be reliably determined in which case they are measured at cost less 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 period.

Premiums and discounts on investment securities are amortised on a systematic basis to maturity using the effective interest method and taken to the income statement.

**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 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.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derecognition of financial assets and financial liabilities (continued)**

*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.

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.

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 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.

**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.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial guarantees (continued)**

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Provision for credit losses'. 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.

#### **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 balance sheet.

Since 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 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 included in these financial statements.

#### **Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet 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 in the balance sheet.

#### **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 balance sheet date. Any resultant gains and losses are taken to the income statement.

#### **Segment reporting**

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**4 NET INCOME FROM INVESTMENTS**

	<i>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
Gain on sale of investments carried at fair value through profit or loss	<b>182,961</b>	-
Gain on sale of available for sale investments	<b>84,910,017</b>	25,579,476
Unrealised loss on revaluation of investments carried at fair value through profit or loss	<b>(3,703,002)</b>	-
Dividend income	<b>11,024,533</b>	11,379,907
Other income	<b>4,672,628</b>	3,613,439
	<b><u>97,087,137</u></b>	<b><u>40,572,822</u></b>

**5 OTHER INCOME**

	<i>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
Portfolio management fee	<b>720,732</b>	924,740
Fees, commission and other income	<b>285,902</b>	309,539
	<b><u>1,006,634</u></b>	<b><u>1,234,279</u></b>

**6 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
Staff costs	<b>6,070,179</b>	3,373,896
Depreciation	<b>342,476</b>	158,807
Rental costs – operating leases	<b>1,258,847</b>	348,079
Consultancy charges	<b>2,411,860</b>	-
Others	<b>1,361,672</b>	1,440,173
	<b><u>11,445,034</u></b>	<b><u>5,320,955</u></b>

**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 448,373 (2007: AED 26,316,602) by the weighted average number of shares outstanding during the year of 449,376 of AED 100 each (2007: 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>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
Cash in hand	<b>24,311</b>	24,491
Balances with UAE Central Bank:		
Current account	<b>1,016,937</b>	2,965,074
Reserve requirements	<b>2,021,999</b>	1,949,679
	<b><u>3,063,247</u></b>	<b><u>4,939,244</u></b>

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**9 DUE FROM BANKS**

	<i>2008</i> <i>AED</i>	<i>2007</i> <i>AED</i>
Domestic	32,937,697	41,780,200
Regional	74,715	3,963,333
International	5,497,102	3,715,475
	<u>38,509,514</u>	<u>49,459,008</u>

Included in due from banks is a term deposit of AED 24,000,000 (2007: 23,930,553) with a counter party in UAE. This deposit has been liened to the extent of AED 22,800,000 (2007: AED 19,833,685) against facilities granted by the counter party to the Bank.

**10 LOANS AND ADVANCES**

	<i>2008</i> <i>AED</i>	<i>2007</i> <i>AED</i>
<b>Commercial and business:</b>		
Loans (secured)	2,510,584	997,914
Overdrafts (unsecured)	15,134,592	24,452,819
	<u>17,645,176</u>	<u>25,450,733</u>

At 31 December 2008, there were no loans individually determined to be impaired and accordingly, no provisions were considered necessary in respect of any of the loans and advances provided by the Bank (2007: Nil). In addition, 100% of the Bank's loans and advances were to customers within the UAE (2007: 100%).

**11 INVESTMENTS**

	<i>2008</i> <i>AED</i>	<i>2007</i> <i>AED</i>
<i>Investments carried at fair value through profit or loss</i>	<u>1,658,690</u>	<u>-</u>
<i>Available for sale investments</i>		
<i>Debt</i>		
Quoted	48,100,216	48,187,746
<i>Equity</i>		
Quoted	206,812,788	407,306,890
Unquoted	50,853,734	57,138,216
	<u>257,666,522</u>	<u>464,445,106</u>
<b>Total available for sale investments</b>	<u>305,766,738</u>	<u>512,632,852</u>
<b>Total investments</b>	<u>307,425,428</u>	<u>512,632,852</u>

Quoted equities with a carrying value of AED 38,929,572 at 31 December 2008 (2007: AED 75,304,396) were registered in the name of certain shareholders' and third parties who are holding these shares in trust on behalf of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**11 INVESTMENTS (continued)**

	<i>2008</i> <i>AED</i>	<i>2007</i> <i>AED</i>
Equity investments:		
Domestic	<b>173,597,476</b>	348,310,816
Regional	<b>41,488,362</b>	49,920,526
International	<b>44,239,374</b>	66,213,764
	<u><b>259,325,212</b></u>	<u>464,445,106</u>
Debt investments:		
Domestic	<b>13,496,558</b>	12,508,373
Regional	<b>4,341,623</b>	1,839,171
International	<b>30,262,035</b>	33,840,202
	<u><b>48,100,216</b></u>	<u>48,187,746</u>
	<u><b>307,425,428</b></u>	<u>512,632,852</u>

**12 PROPERTY AND EQUIPMENT**

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2008	<b>762,134</b>	<b>328,250</b>	<b>1,090,384</b>
Additions	<b>2,991,403</b>	<b>193,830</b>	<b>3,185,233</b>
Disposals	<b>(114,089)</b>	<b>(408,730)</b>	<b>(522,819)</b>
At 31 December 2008	<u><b>3,639,448</b></u>	<u><b>113,350</b></u>	<u><b>3,752,798</b></u>
Accumulated depreciation:			
At 1 January 2008	<b>674,135</b>	<b>262,338</b>	<b>936,473</b>
Charge for the year	<b>257,096</b>	<b>85,379</b>	<b>342,475</b>
Relating to disposals	<b>(69,777)</b>	<b>(240,767)</b>	<b>(310,544)</b>
At 31 December 2008	<u><b>861,454</b></u>	<u><b>106,950</b></u>	<u><b>968,404</b></u>
Net carrying values:			
<b>At 31 December 2008</b>	<u><b>2,777,994</b></u>	<u><b>6,400</b></u>	<u><b>2,784,394</b></u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**12 PROPERTY AND EQUIPMENT (continued)**

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2007	739,622	640,300	1,379,922
Additions	22,512	-	22,512
Disposals	-	(312,050)	(312,050)
	<u>762,134</u>	<u>328,250</u>	<u>1,090,384</u>
At 31 December 2007			
Accumulated depreciation:			
At 1 January 2007	602,166	465,529	1,067,695
Charge for the year	71,969	86,838	158,807
Relating to disposals	-	(290,029)	(290,029)
	<u>674,135</u>	<u>262,338</u>	<u>936,473</u>
At 31 December 2007			
Net carrying values:			
At 31 December 2007	<u><u>87,999</u></u>	<u><u>65,912</u></u>	<u><u>153,911</u></u>

**13 OTHER ASSETS**

	<i>2008 AED</i>	<i>2007 AED</i>
Interest receivable	<b>2,196,218</b>	1,581,418
Other receivables and prepayments	<b>3,218,127</b>	11,118,103
	<u><b>5,414,345</b></u>	<u>12,699,521</u>

**14 OTHER LIABILITIES**

	<i>2008 AED</i>	<i>2007 AED</i>
Interest payable	<b>852,539</b>	996,124
Staff related provisions	<b>472,595</b>	530,382
Other	<b>5,904,224</b>	1,959,025
	<u><b>7,229,358</b></u>	<u>3,485,531</u>

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

	<i>2008 AED</i>	<i>2007 AED</i>
Liability as at 1 January	<b>530,382</b>	409,748
Expense recognised in the income statement	<b>214,392</b>	120,634
Amount paid during the year	<b>(272,179)</b>	-
	<u><b>472,595</b></u>	<u>530,382</u>
Liability as at 31 December		

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**15 SHARE CAPITAL AND RESERVES**

**a) Share capital**

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2007: 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 (2007: 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. 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.

**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.

**16 DIVIDENDS PAID AND PROPOSED**

Cash dividends of AED 20 per share totalling AED 8,987,520 relating to the year 2007 were declared and paid in the current year. During 2007, cash dividends of AED 15 per share totalling AED 6,740,265 relating to the year 2006 were declared and paid.

**17 CUMULATIVE CHANGES IN FAIR VALUES**

	<i>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
<i>Available for sale investments</i>		
At 1 January	<b>191,549,409</b>	97,198,365
Net unrealised (losses) / gains during the year	<b>(225,558,555)</b>	119,930,520
Impairment of available for sale investments	<b>76,403,798</b>	-
Net realised gains transferred to income statement on disposal	<b>(84,910,017)</b>	(25,579,476)
At 31 December	<b><u>(42,515,365)</u></b>	<b><u>191,549,409</u></b>

**18 DERIVATIVES**

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Bank entered into forward foreign exchange contracts only.

**Derivative product types**

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

**Derivative related credit risk**

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. All of the Bank's derivative contracts are entered into with other financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**18 DERIVATIVES (continued)**

**Purpose of derivatives**

In the normal course of meeting the needs of the Bank's customers, the Bank is party to forward foreign exchange contracts. In addition, as part of its asset and liability management, the Bank uses forward foreign exchange contracts for hedging purposes in order to reduce its own exposure to currency risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as trading instruments.

As at 31 December 2008, the Bank did not have any outstanding forward foreign exchange contracts (2007:Nil).

**19 COMMITMENTS AND CONTINGENT LIABILITIES**

***Credit-related commitments***

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 credit related commitments:

	<i>2008</i>	<i>2007</i>
	<i>AED</i>	<i>AED</i>
<b><i>Contingent liabilities:</i></b>		
Letters of credit and acceptances	<b>1,758,074</b>	2,288,541
Guarantees	<b>7,956,070</b>	2,746,800
	<b>9,714,144</b>	5,035,341

***Commitments:***

The Bank has commitments totalling to AED 6,387,168 (2007: AED 8,889,298) 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**20 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:

	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	<b>3,818,496</b>	13,025,869
Customers' deposits	<b>10,000,000</b>	74,065,726
Commitments and contingencies	<b>59,057,451</b>	49,700,105

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

	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>
<i>Directors, their related parties and key management personnel:</i>		
Interest income	<b>545,755</b>	584,591
Interest expense	<b>2,817,124</b>	4,227,256
Commission and fees	<b>96,145</b>	434,859

*Parent company:*

Cost of investments sold	<b>45,008,176</b>	-
Purchase of investments	<b>118,535,614</b>	-

**Compensation of key management personnel:**

	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>
Salaries and other benefits	<b>2,747,439</b>	1,763,820

**21 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.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

### 21 RISK MANAGEMENT (continued)

#### *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 risk issues 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 General Manager and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

#### *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.

#### *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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 RISK MANAGEMENT (continued)**

**CREDIT RISK (continued)**

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 balance sheet, 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 2008 AED</i>	<i>Gross maximum exposure 2007 AED</i>
Balances with UAE Central Bank (excluding cash on hand)	8	<b>3,038,936</b>	4,914,753
Due from banks	9	<b>38,509,514</b>	49,459,008
Loans and advances	10	<b>17,645,176</b>	25,450,733
Investments	11	<b>307,425,428</b>	512,632,852
Other assets		<b>4,414,039</b>	11,943,855
<b>Total</b>		<b>371,033,093</b>	604,401,201
Letters of credit and acceptances	19	<b>1,758,074</b>	2,288,541
Guarantees	19	<b>7,956,070</b>	2,746,800
<b>Total</b>		<b>9,714,144</b>	5,035,341
<b>Total credit risk exposure</b>		<b>380,747,237</b>	609,436,542

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 2008 was AED 24,000,000 (2007: AED 23,930,553) before taking account of collateral or other credit enhancements and AED24,000,000(2007: AED 23,930,553) net of such protection.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

21 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

The Bank's financial position, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2008			2007		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
United Arab Emirates	247,639,891	374,842,104	9,714,144	436,654,012	605,335,269	5,035,341
North America	48,674,265	-	-	65,504,403	-	-
Latin America	3,901,325	-	-	8,278,346	-	-
Europe	11,334,317	-	-	16,628,885	-	-
Asia Pacific	22,739,958	-	-	24,810,058	-	-
GCC & other ME	40,552,348	-	-	53,459,565	-	-
	<b>374,842,104</b>	<b>374,842,104</b>	<b>9,714,144</b>	<b>605,335,269</b>	<b>605,335,269</b>	<b>5,035,341</b>

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

	<i>Gross maximum exposure 2008</i>	<i>Gross maximum exposure 2007</i>
	<i>AED</i>	<i>AED</i>
Commercial and business	201,515,808	275,118,839
Banks and financial institutions	158,794,991	311,280,161
Government entities	20,190,844	21,361,952
Others	245,594	1,675,590
	<b>380,747,237</b>	<b>609,436,542</b>

*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 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

21 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 assets for certain key balance sheet lines, based on the Bank's internal credit rating system.

	<i>Neither past due nor impaired</i>			<i>Total</i> <i>2008</i> <i>AED</i>
	<i>High</i>	<i>Standard</i>	<i>Sub-</i>	
	<i>grade</i>	<i>grade</i>	<i>standard</i>	
	<i>2008</i>	<i>2008</i>	<i>grade</i>	
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Due from banks	38,509,514	-	-	38,509,514
Loans and advances	-	12,645,176	-	12,645,176
Investments	219,923,030	63,036,861	24,465,537	307,425,428
	<u>258,432,544</u>	<u>75,682,037</u>	<u>24,465,537</u>	<u>358,580,118</u>

	<i>Neither past due nor impaired</i>			<i>Total</i> <i>2007</i> <i>AED</i>
	<i>High</i>	<i>Standard</i>	<i>Sub-</i>	
	<i>grade</i>	<i>grade</i>	<i>standard</i>	
	<i>2007</i>	<i>2007</i>	<i>grade</i>	
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Due from banks	49,459,008	-	-	49,459,008
Loans and advances	-	25,450,733	-	25,450,733
Investments	402,771,680	80,378,199	29,482,973	512,632,852
	<u>452,230,688</u>	<u>105,828,932</u>	<u>29,482,973</u>	<u>587,542,593</u>

As at the year end, the Bank has an amount of AED 5,000,000 (2007: Nil) in loans and advances which was past due however, the management believes that it was not impaired.

As at the year end, the Bank has no amounts which are individually impaired (2007: Nil).

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

	<i>Moody's</i> <i>equivalent</i> <i>grades</i>	<i>Total</i> <i>2008</i> <i>AED</i>	<i>Total</i> <i>2007</i> <i>AED</i>
Prime grade	Aaa	18,533,988	13,017,004
High grade	Aa1-Aa3	241,278,802	444,128,438
Standard grade	Baa-Baa3	91,020,612	111,009,798
Sub-standard grade	Ba-B3	26,887,028	41,281,302
Impaired	C	3,026,807	-
		<u>380,747,237</u>	<u>609,436,542</u>

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 RISK MANAGEMENT (continued)**

***Credit risk exposure of the Bank's financial assets including contingent liabilities and commitments for each internal risk rating (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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 RISK MANAGEMENT (continued)**

**LIQUIDITY RISK (continued)**

Maturities of assets and liabilities based on the remaining period at the balance sheet date 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, as at 31 December 2008 is as follows:

	<i>Less than 3 months AED</i>	<i>From 3 months to 6 months AED</i>	<i>From 6 months to 12 months AED</i>	<i>Sub total less than 12 months AED</i>	<i>1-5 years AED</i>	<i>Over 5 years AED</i>	<i>Sub total over 12 months AED</i>	<i>Undated AED</i>	<i>Total AED</i>
<b>ASSETS</b>									
Cash and balances with UAE Central Bank	3,063,247	-	-	3,063,247	-	-	-	-	3,063,247
Due from banks	14,509,514	24,000,000	-	38,509,514	-	-	-	-	38,509,514
Loans and advances	17,645,176	-	-	17,645,176	-	-	-	-	17,645,176
Investments	4,710,579	-	2,770,898	7,481,477	17,706,764	22,911,975	40,618,739	259,325,212	307,425,428
Property and equipment	-	-	-	-	-	-	-	2,784,394	2,784,394
Other assets	5,414,345	-	-	5,414,345	-	-	-	-	5,414,345
<b>Total assets</b>	<b>45,342,861</b>	<b>24,000,000</b>	<b>2,770,898</b>	<b>72,113,759</b>	<b>17,706,764</b>	<b>22,911,975</b>	<b>40,618,739</b>	<b>262,109,606</b>	<b>374,842,104</b>
<b>LIABILITIES AND EQUITY</b>									
Due to banks	90,000,000	-	-	90,000,000	-	-	-	-	90,000,000
Customer deposits	161,828,605	3,122,078	14,293,211	179,243,894	-	-	-	-	179,243,894
Other liabilities	7,229,358	-	-	7,229,358	-	-	-	-	7,229,358
Equity	-	-	-	-	-	-	-	98,368,852	98,368,852
<b>Total liabilities and equity</b>	<b>259,057,963</b>	<b>3,122,078</b>	<b>14,293,211</b>	<b>276,473,252</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>98,368,852</b>	<b>374,842,104</b>
<b>Net liquidity gap</b>	<b>(213,715,102)</b>	<b>20,877,922</b>	<b>(11,522,313)</b>	<b>(204,359,493)</b>	<b>17,706,764</b>	<b>22,911,975</b>	<b>40,618,739</b>	<b>163,740,754</b>	

Arab Emirates Investment Bank P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 RISK MANAGEMENT (continued)**

**LIQUIDITY RISK (continued)**

The maturity profile of assets and liabilities at 31 December 2007 was as follows:

	<i>Less than 3 months AED</i>	<i>From 3 months to 6 months AED</i>	<i>From 6 months to 12 months AED</i>	<i>Sub total less than 12 months AED</i>	<i>1-5 years AED</i>	<i>Over 5 years AED</i>	<i>Sub total over 12 months AED</i>	<i>Undated AED</i>	<i>Total AED</i>
<b>ASSETS</b>									
Cash and balances									
with UAE Central Bank	4,939,244	-	-	4,939,244	-	-	-	-	4,939,244
Due from banks	49,459,008	-	-	49,459,008	-	-	-	-	49,459,008
Loans and advances	25,450,733	-	-	25,450,733	-	-	-	-	25,450,733
Investments	2,957,968	926,927	-	3,884,895	24,459,073	19,843,777	44,302,850	464,445,107	512,632,852
Property and equipment	-	-	-	-	-	-	-	153,911	153,911
Other assets	12,699,521	-	-	12,699,521	-	-	-	-	12,699,521
<b>Total assets</b>	<b>95,506,474</b>	<b>926,927</b>	<b>-</b>	<b>96,433,401</b>	<b>24,459,073</b>	<b>19,843,777</b>	<b>44,302,850</b>	<b>464,599,018</b>	<b>605,335,269</b>
<b>LIABILITIES AND EQUITY</b>									
Due to banks	32,000,000	-	-	32,000,000	-	-	-	-	32,000,000
Customer deposits	166,874,653	17,260,534	44,891,778	229,026,965	-	-	-	-	229,026,965
Other liabilities	2,955,149	-	-	2,955,149	-	-	-	530,382	3,485,531
Equity	-	-	-	-	-	-	-	340,822,773	340,822,773
<b>Total liabilities and equity</b>	<b>201,829,802</b>	<b>17,260,534</b>	<b>44,891,778</b>	<b>263,982,114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>341,353,155</b>	<b>605,335,269</b>
<b>Net liquidity gap</b>	<b>(106,323,328)</b>	<b>(16,333,607)</b>	<b>(44,891,778)</b>	<b>(167,548,713)</b>	<b>24,459,073</b>	<b>19,843,777</b>	<b>44,302,850</b>	<b>123,245,863</b>	

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 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 31 December 2008 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 indicated by the Bank's deposit retention history.

<b>Financial liabilities</b>	<b><i>On demand</i></b> <b><i>AED</i></b>	<b><i>Less than 3 months</i></b> <b><i>AED</i></b>	<b><i>3 to 12 months</i></b> <b><i>AED</i></b>	<b><i>1 to 5 years</i></b> <b><i>AED</i></b>	<b><i>Over 5 years</i></b> <b><i>AED</i></b>	<b><i>Total</i></b> <b><i>AED</i></b>
As at 31 December 2008						
Due to banks	-	90,136,000	-	-	-	90,136,000
Customer deposits	18,599,977	143,899,102	17,484,965	-	-	179,984,044
Other liabilities	6,756,763	-	-	-	-	6,756,763
<b>Total undiscounted financial liabilities</b>	<b>25,356,740</b>	<b>234,035,102</b>	<b>17,484,965</b>	<b>-</b>	<b>-</b>	<b>276,876,807</b>
As at 31 December 2007						
Due to banks	-	32,081,276	-	-	-	32,081,276
Customer deposits	33,648,660	133,743,058	64,886,435	-	-	232,278,153
Other liabilities	2,955,149	-	-	-	-	2,955,149
<b>Total undiscounted financial liabilities</b>	<b>36,603,809</b>	<b>165,824,334</b>	<b>64,886,435</b>	<b>-</b>	<b>-</b>	<b>267,314,578</b>

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

	<b><i>On demand</i></b> <b><i>AED</i></b>	<b><i>Less than 3 months</i></b> <b><i>AED</i></b>	<b><i>3 to 12 months</i></b> <b><i>AED</i></b>	<b><i>1 to 5 years</i></b> <b><i>AED</i></b>	<b><i>Over 5 years</i></b> <b><i>AED</i></b>	<b><i>Total</i></b> <b><i>AED</i></b>
<b>2008</b>						
Contingent liabilities	2,491,070	1,858,074	5,365,000	-	-	9,714,144
<b>2007</b>						
Contingent liabilities	2,746,800	2,288,541	-	-	-	5,035,341

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 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 Asset and Liability Committee (ALCO).

**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.

<b>Increase in basis points 2008</b>	<b>Sensitivity of net interest income 2008 AED</b>	<b>Sensitivity of equity 2008 AED</b>	<b>Sensitivity of net interest income 2007 AED</b>	<b>Sensitivity of equity 2007 AED</b>
<b>100</b>	<b>(2,097,880)</b>	<b>(1,296,451)</b>	<b>(1,801,694)</b>	<b>(2,364,505)</b>

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 31 December 2008 on its non trading monetary assets and liabilities and its 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.

<b>Currency</b>	<b>Change in currency rate in % 2008</b>	<b>Effect on equity 2008 AED</b>	<b>Change in currency rate in % 2007</b>	<b>Effect on equity 2007 AED</b>
US Dollars	+10	10,214,486	+10	12,114,888
Pakistan Rupees	+10	7,942	+10	132,318
Euro	+10	1,108,596	+10	1,211,053
Pound Sterling	+10	92,794	+10	48,478
Danish Kroner	+10	7,138	+10	790,825

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**21 RISK MANAGEMENT (continued)**

**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 investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2008) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2008 %</i>	<i>Effect on equity 2008 AED</i>	<i>Change in equity price 2007 %</i>	<i>Effect on equity 2007 AED</i>
New York Stock Exchange	+10	599,106	+10	909,783
Abu Dhabi Securities Market	+10	8,423,644	+10	14,684,234
Dubai Financial Market	+10	6,492,393	+10	16,920,680
Others	+10	4,581,213	+10	8,215,992
Unquoted	+10	5,660,302	+10	5,713,822

**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.

**22 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.

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2008 AED</i>	<i>2007 AED</i>	<i>2008 AED</i>	<i>2007 AED</i>	<i>2008 AED</i>	<i>2007 AED</i>
Interest income, net income from investment, other income and exchange (loss) / gain – net of impairment loss on investments	1,237,688	4,269,817	21,108,577	42,836,111	22,346,265	47,105,928
Inter-segment adjustment	8,656,143	9,748,611	(8,656,143)	(9,748,611)	-	-
	<b>9,893,831</b>	14,018,428	<b>12,452,434</b>	33,087,500	<b>22,346,265</b>	47,105,928
Profit for the year	<b>(2,413,956)</b>	(2,103,279)	<b>3,012,329</b>	28,569,881	<b>598,373</b>	26,466,602
	<i>Development Banking</i>	<i>Investment Banking</i>	<i>Total</i>			
	<i>2008 AED</i>	<i>2007 AED</i>	<i>2008 AED</i>	<i>2007 AED</i>	<i>2008 AED</i>	<i>2007 AED</i>
Segment assets	65,356,378	91,391,023	309,485,726	513,944,246	374,842,104	605,335,269
Segment liabilities and equity	276,623,252	264,514,996	98,218,852	340,820,273	374,842,104	605,335,269

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**23 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 value of the Bank's on - balance sheet financial instruments is not materially different from the carrying value 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.

On-balance sheet financial instruments have been classified for the purpose of IAS 39 as follows:

<i>31 December 2008</i>	<i>At fair value through profit or loss AED</i>	<i>Available for sale AED</i>	<i>Loans and receivables AED</i>	<i>Amortised cost AED</i>	<i>Total AED</i>
<b>Financial assets</b>					
Cash and balances with					
UAE Central Bank	-	-	-	3,063,247	3,063,247
Due from banks	-	-	-	38,509,514	38,509,514
Loans and advances	-	-	17,645,176	-	17,645,176
Investments	1,658,690	305,766,738	-	-	307,425,428
Others	-	-	-	4,414,039	4,414,039
	<u>1,658,690</u>	<u>305,766,738</u>	<u>17,645,176</u>	<u>45,986,800</u>	<u>371,057,404</u>
<b>Financial liabilities</b>					
Due to banks	-	-	-	90,000,000	90,000,000
Customer deposits	-	-	-	179,243,894	179,243,894
Others	-	-	-	6,756,763	6,756,763
	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,000,657</u>	<u>276,000,657</u>
<i>31 December 2007</i>	<i>At fair value through profit or loss AED</i>	<i>Available for sale AED</i>	<i>Loans and receivables AED</i>	<i>Amortised cost AED</i>	<i>Total AED</i>
<b>Financial assets</b>					
Cash and balances with					
UAE Central Bank	-	-	-	4,939,244	4,939,244
Due from banks	-	-	-	49,459,008	49,459,008
Loans and advances	-	-	25,450,733	-	25,450,733
Investments	-	512,632,852	-	-	512,632,852
Others	-	-	-	11,943,855	11,943,855
	<u>-</u>	<u>512,632,852</u>	<u>25,450,733</u>	<u>66,342,107</u>	<u>604,425,692</u>
<b>Financial liabilities</b>					
Due to banks	-	-	-	32,000,000	32,000,000
Customer deposits	-	-	-	229,026,965	229,026,965
Others	-	-	-	2,955,149	2,955,149
	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,982,114</u>	<u>263,982,114</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**24 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 strong credit ratings and 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>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>	<b>AED</b>	<b>AED</b>
<b>Assets</b>				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	<b>10,179,797</b>	51,751,930	-	24,452,819
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	<b>341,328,974</b>	540,729,908	<b>310,521,363</b>	501,162,702
Claims at 100%	<b>23,333,333</b>	12,853,431	<b>23,333,333</b>	12,853,431
	<b>374,842,104</b>	605,335,269	<b>333,854,696</b>	538,468,952
<b>Off balance sheet items</b>				
Credit commitments and contingent items (note 19)				
Letters of credit and acceptances	<b>1,758,074</b>	2,288,541	<b>351,615</b>	457,708
Letters of guarantee	<b>7,956,070</b>	2,746,800	<b>7,956,070</b>	2,746,800
Credit risk weighted assets and off balance sheet items			<b>342,162,381</b>	541,673,460
Market risk weighted assets and off balance sheet items			-	-
Total risk weighted assets			<b>342,162,381</b>	541,673,460
Risk asset ratio			<b>28.75%</b>	41.81%

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2008

**24 CAPITAL ADEQUACY (continued)**

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation gain/loss less accrued dividends. 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.

The Bank has complied with all the requirements as set by the Central Bank of UAE.

**25 FIDUCIARY ASSETS**

	<b>2008</b>	<b>2007</b>
	<b>AED</b>	<b>AED</b>
Balance as at 31 December	<b><u>48,237,305</u></b>	<b><u>129,332,432</u></b>

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.

**26 COMPARATIVE INFORMATION**

Exchange gain on investments for the year ended 31 December 2007 amounting to AED 1,338,548 which was previously included in net income from investments and exchange loss for the year ended 31 December 2007 amounting to AED 64,941 previously included in other income have been shown as a separate line item in the income statement as exchange (loss) / gain.

Such reclassifications have been done to conform to the current period's presentation and do not affect previously reported net profit or shareholders' equity.