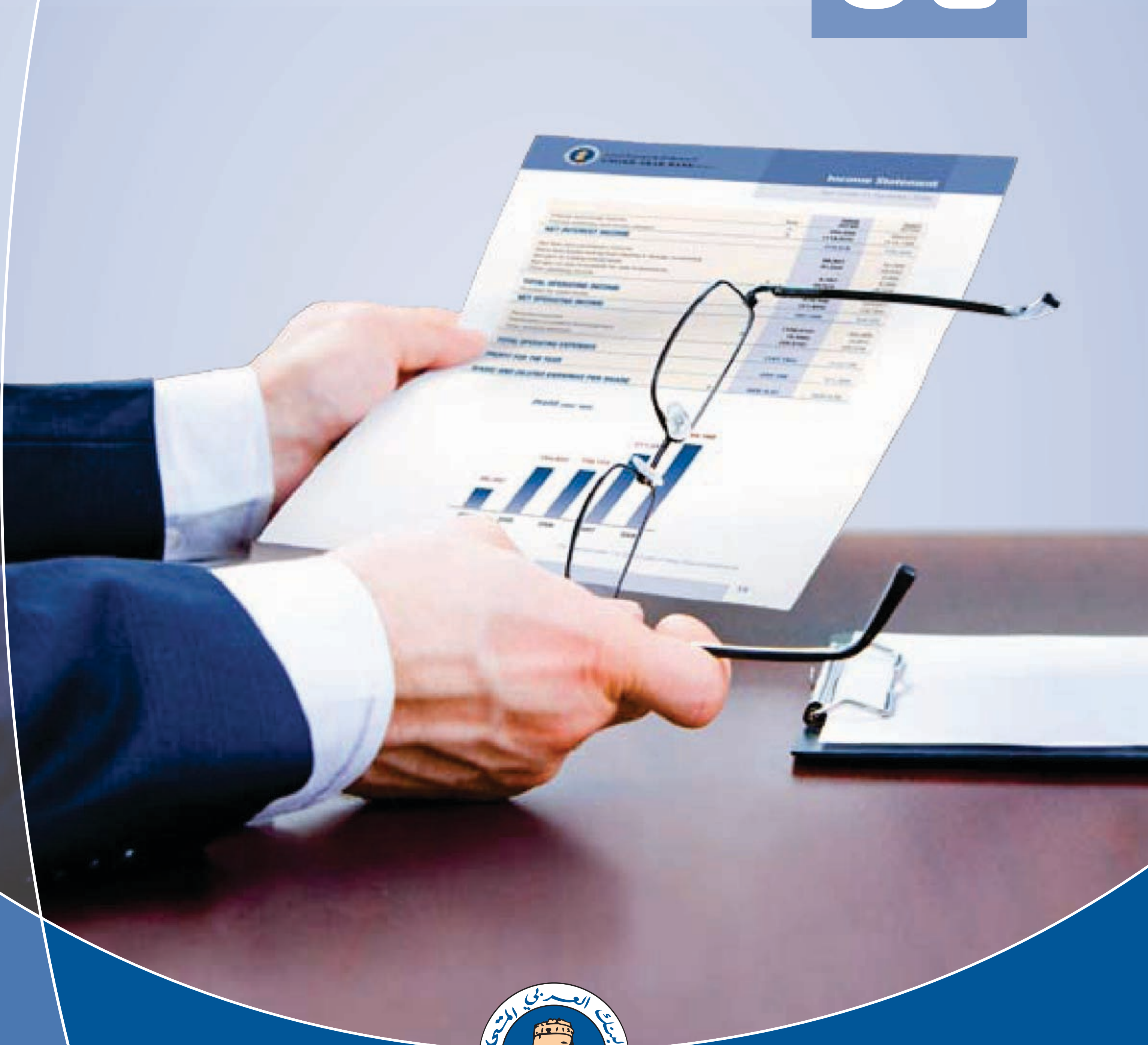
ANNUAL
Report

2008



البـنـك الـعـربـي المـتـحـد

UNITED ARAB BANK

P.J.S.C.

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Board of Directors

2008

Board of Directors

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Sheikh Sultan Bin Saqr Al Qassimi
Vice Chairman

Sheikh Abdulla Bin Ali Bin Jabor Al Thani

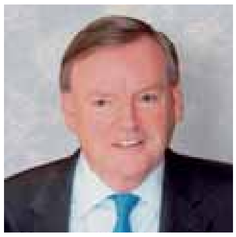
Mr. Ahmed Mohamad Hamad Al Midfa

Mr. Mohamed Abdulbaki Mohamed

Mr. Ahmed Mohamad Bakheet Khalfan

Mr. Andrew Stevens

Mr. Omar Hussain Alfardan



Mr. Hugh Edward Thompson

Management

2008

Management

Mr. Bertrand Giraud

Chief Executive Officer

Mr. Awni Al Alami

Deputy Chief Executive Officer

Brief History

2008

Brief History

UNITED ARAB BANK, P.J.S.C. (UAB) was incorporated in 1975 as a joint venture between diverse UAE investors and the French international financial conglomerate, Société Générale (SG). In February 2005, SG sold its 20% stake in UAB to its UAE shareholders in what was reported to be one of the largest UAE share deals concluded in recent years.

Based in Sharjah and operating with ten offices and branches throughout the UAE, the Bank offers clients tailor-made financial services in both corporate and retail banking, and has mainly established itself as a leading solutions provider for a growing commercial and industrial base across the seven emirates. Through the provision of structured finance solutions for complex banking transactions, UAB is the bank of choice among major corporate clientele segments in the UAE.

UAB has formally concluded lately a strategic alliance with The Commercial Bank of Qatar (Cb). Described by investment analysts from around the region as a natural strategic fit, Cb made an original acquisition of 40% interest in UAB in December 2007, in one of the few GCC cross border agreements between two national banks – the first between banks from Qatar and the UAE.

Two years ago, Cb had concluded a similar alliance with National Bank of Oman (NBO), setting the stage for strong growth by all three banks across the region. Through its majority shareholding and management services agreements with United Arab Bank and National Bank of Oman, Commercialbank of Qatar has forged a regional banking alliance with a footprint spanning three geographies in the Southern Gulf.

In building an increasingly aligned structure, the Alliance of the three banks is actively focused on optimizing potential synergies, implementing industry best practice and developing shared services and product offerings.

The convergence process is being accelerated by Vision 2013, a key strategic initiative which will develop core businesses across the Alliance, with the aim of strengthening market share and enhancing profitability. In the more challenging business environment that we face in 2009, the Vision 2013 project will enable UAB to improve bank processes, optimize cost structures and introduce new product offerings which will contribute towards creating a better customer experience.

Your RELIABLE ally for a
prosperous future

Directors' Report

2008

Directors' Report

for the year ended 31 December 2008

On behalf of the Board of Directors, I am pleased to present the financial position of United Arab Bank P.J.S.C. for the year ended 31 December 2008. The financial statements have been prepared in compliance with the International Financial Reporting Standards.

The Bank's performance during the year under review has been satisfactory and the results achieved are in line with the anticipated projections despite the difficult business environment. The Bank's Operating Income after Provisions increased by 22.62% from AED 324.05 mio for the prior year to AED 397.35 mio in 2008 and the Net Profit for the year 2008 increased by 18.38% from AED 211.35 mio in 2007 to AED 250.20 mio. Earnings per share improved by 19.23% to AED 0.31 as against AED 0.26 the previous year.

The Bank continued its policy of steady growth, focusing on diversification, broadening the customer base, aligning the marketing strategy to the business climate, maintaining good quality assets, improving the quality of customer services, applying appropriate controls and, most importantly, ensuring that the Shareholders' and depositors' funds were utilized for better returns from the available resources. The bank's satisfactory performance was reflected in the financial results at the end of December 2008 which showed healthy growth compared to the previous year. Key performance indicators were:

- Total Balance Sheet footing increased by 22.23% from AED 6.185 bio to AED 7.560 bio.
- Loans & Advances increased by 39.73% from AED 3.944 bio to AED 5.511 bio.
- Due from Banks increased by 24.91% from AED 0.791 bio to AED 0.988 bio.
- Customers' Deposits increased by 20.52% from AED 4.123 bio to AED 4.969 bio.
- Deposits from Banks and Financial Institutions increased by 45.40% from AED 0.696 bio to AED 1.012 bio.
- Contingent Liabilities & Commitments increased by 38.43% from AED 4.741 bio to AED 6.563 bio.

We maintained our policy of continuous appraisal of the lending portfolio to ensure adequate coverage for losses against Customers' exposures. The level of provisioning ensured that all doubtful loans and advances were appropriately provided for in accordance with industry best practice. As a result, net provisions made for doubtful loans and advances for the year 2008 amounted to AED 21.820 mio compared with AED 19.794 mio for 2007.

The proposed appropriations of profit for the year ended 31 December 2008 are as follows:

	AED '000
Opening Balance in Retained Earnings	767
Net Profit for the year	250,198
Transfer from Asset Revaluation Reserve	1,178
Balance available for appropriation	**252,143**
Transfer to Special Reserve	25,020
Transfer to Statutory Reserve	25,020
Proposed Scrip dividend - 25 % of the Paid up Capital	199,280
Proposed Directors' remuneration	1,350
Closing Balance in Retained Earnings	1,473
	252,143

After proposed appropriation of profit and subject to approval of the General Assembly, the total shareholders' funds will increase to AED 1.341 bio at the end of December 2008 compared with AED 1.283 bio at year end 2007.

In strengthening the compliance and risk management frameworks, the Bank is committed and prepared for the implementation of Corporate Governance requirements specified by Basel II. The Bank has aligned with the implementation schedule for Corporate Governance Regulations in PJSC as recommended by the Emirates Securities and Commodity Authority (ESCA). As regards Basel II, the Bank has implemented the requirements of the Basel Accord, covering the credit, market and operational risk, under the auspicious guidance of the Central Bank of U.A.E. UAB has concluded the process under Pillar 2 concerning the supervisory review of its activities, and is ready to complete Pillar 3 requirements that concern disclosures.

In order to improve and provide better services to customers, we continued to upgrade existing systems, leveraging developments in technology, to centralize processes. Several new services were introduced during the year including UAB Online service, treasury solutions for derivatives and capital markets, image cheques clearing system of the U.A.E. Central Bank, centralization of commercial accounts and syndicated loans disbursement and SMS banking. In addition, to new credit cards and ATM flash cards were issued to customers with additional security features for protection against fraud and forgeries.

The Bank remained committed to recruit UAE Nationals with the aim of developing a capable and qualified cadre of National bankers. During the year, a series of in-house and exterior training programmes were conducted in meeting this objective. At year end 2008, UAE Nationals comprised 34% of the total staff.

In conclusion, on behalf of the Board of Directors, I wish to place on record my sincere thanks to the Management and Staff of United Arab Bank P.J.S.C. for their dedication, hard work and loyalty that is reflected in the commendable results achieved during 2008. I am confident that, with the same spirit and teamwork, superior results can be achieved in 2009

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
18 March 2009

Auditors' Report

2008

Independent Auditors' Report

to the shareholders of United Arab Bank
Public Joint Stock Company

Report on the Financial Statements

We have audited the accompanying financial statements of United Arab Bank P.J.S.C. ('the Bank'), which comprise the balance sheet as at 31 December 2008 and the income statement and statements of changes in equity and cash flows 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, Federal Law No.8 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

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 Federal Law No.8 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 Federal Law No. 8 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:
Naushad Anwar
Partner
Registration No. 489

18 March 2009
Sharjah, United Arab Emirates

Financial Statements

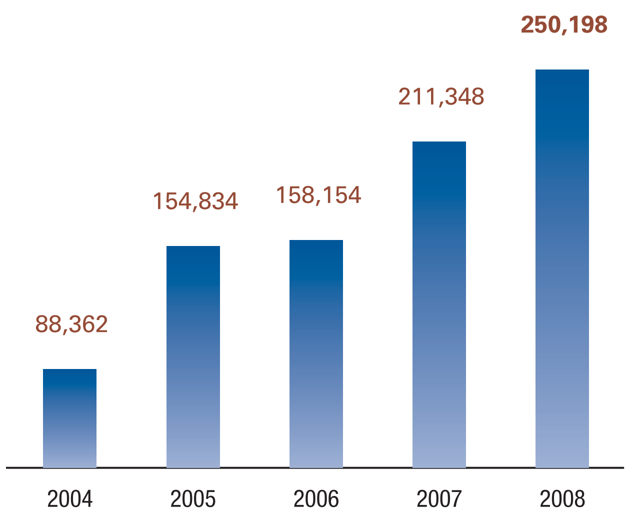
2008

Income Statement

Year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000
Interest and similar income	4	**392,688**	350,072
Interest expenses and similar charges	5	**(119,070)**	(114,136)
NET INTEREST INCOME		**273,618**	235,936
Net fees and commission income		**66,927**	42,865
Gains less losses arising from dealing in foreign currencies		**41,226**	29,643
Net gain on trading investments		**-**	3,995
Net gain on sale of available for sale investments		**6,487**	5,069
Other operating income	6	**30,910**	26,339
TOTAL OPERATING INCOME		**419,168**	343,847
Provision for credit losses	7	**(21,820)**	(19,794)
NET OPERATING INCOME		**397,348**	324,053
Personnel expenses		**(108,012)**	(84,485)
Depreciation on property and equipment	8	**(5,566)**	(4,901)
Other operating expenses		**(33,572)**	(23,319)
TOTAL OPERATING EXPENSES		**(147,150)**	(112,705)
PROFIT FOR THE YEAR		**250,198**	211,348
BASIC AND DILUTED EARNINGS PER SHARE	9	**AED 0.31**	AED 0.26

Profit (AED '000)



The attached notes 1 to 25 form part of these financial statements.

البنك العربي المتحد
UNITED ARAB BANK P.J.S.C.

Balance Sheet

At 31 December 2008

	Notes	2008 AED'000	2007 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	**387,507**	1,080,629
Due from banks	11	**988,289**	790,554
Loans and advances	7	**5,510,732**	3,943,807
Investments in debt securities	12	**495,366**	241,441
Other investments	12	**330**	17,516
Property and equipment	8	**46,613**	42,931
Other assets	13	**131,612**	67,754
TOTAL ASSETS		**7,560,449**	6,184,632
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to UAE Central Bank	14	**88,173**	-
Due to banks		**1,012,292**	695,942
Customer deposits	15	**4,969,307**	4,122,754
Other liabilities	16	**149,372**	83,092
TOTAL LIABILITIES		**6,219,144**	4,901,788
SHAREHOLDERS' FUNDS			
Share capital	17	**797,121**	711,715
Special reserve	17	**163,995**	138,975
Statutory reserve	17	**246,550**	221,530
Proposed scrip dividend	17	**199,280**	85,406
Proposed cash dividend	17	**-**	78,289
General reserve	17	**9,311**	10,311
Revaluation reserve	17	**25,203**	26,381
Retained earnings		**1,473**	767
Cumulative changes in fair values	18	**(101,628)**	9,470
TOTAL SHAREHOLDERS' FUNDS		**1,341,305**	1,282,844
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**7,560,449**	6,184,632

The financial statements were approved by the Board of Directors on 18 March 2009 and signed on its behalf by:

Faisal Bin Sultan Bin Salem Al Qassimi
(Chairman)

Bertrand Giraud
(Chief Executive Officer)

The attached notes 1 to 25 form part of these financial statements.

Statement of Cash Flows

Year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000
OPERATING ACTIVITIES			
Profit for the year		**250,198**	211,348
Items not involving cash flow:			
Depreciation	8	**5,566**	4,901
Provision for credit losses	7	**21,820**	19,794
Items considered separately			
Net gains on available for sale investments		**(6,487)**	(5,069)
Gain on disposal of property and equipment		**-**	(612)
Changes in operating assets and liabilities			
Trading securities		**-**	10,781
Deposits with UAE Central Bank maturing after 90 days		**35,000**	(25,000)
Loans and advances		**(1,588,745)**	(622,651)
Other assets		**(63,083)**	71,147
Due to banks maturing after 90 days		**246,900**	183,605
Customer deposits	15	**846,553**	849,532
Other liabilities	16	**66,280**	(12,326)
Net cash (used in) from operating activities		**(185,998)**	685,450
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(9,248)**	(4,469)
Sale of property and equipment		**-**	895
Purchase of non trading investments		**(386,020)**	(90,405)
Redemption / sale of non trading investments		**43,895**	36,785
Net cash used in investing activities		**(351,373)**	(57,194)
FINANCING ACTIVITIES			
Directors' remuneration		**(1,350)**	(1,350)
Cash dividends paid		**(78,289)**	(50,837)
Donation paid		**(1,000)**	-
Net cash used in financing activities		**(80,639)**	(52,187)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(618,010)**	576,069
Cash and cash equivalents at 1 January		**1,507,491**	931,422
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**889,481**	1,507,491
CASH AND CASH EQUIVALENTS:			
Cash and balances with UAE Central Bank		**387,507**	1,045,629
Due to UAE Central Bank		**(88,173)**	-
Due from banks maturing within ninety days		**988,289**	790,554
Due to banks maturing within ninety days		**(398,142)**	(328,692)
		889,481	1,507,491
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDEND			
Interest paid		**118,534**	96,122
Interest received		**393,634**	348,241

The attached notes 1 to 25 form part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2008

	Share capital AED'000 (Note 17a)	Special reserve AED'000 (Note 17b)	Statutory reserve AED'000 (Note 17c)	Proposed scrip dividend AED'000 (Notes 17d)	Proposed cash dividend AED'000 (Note 17d)	General reserve AED'000 (Note17e)	Revaluation reserve AED'000 (Note 17f)	Retained earnings AED'000	Cumulative changes in fair values AED'000 (Note 18)	Total AED'000
At 1 January 2008	711,715	138,975	221,530	85,406	78,289	10,311	26,381	767	9,470	1,282,844
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	-	(111,098)	(111,098)
Depreciation transfer for land and building	-	-	-	-	-	-	(1,178)	1,178	-	-
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	(1,178)	1,178	(111,098)	(111,098)
Profit for the year	-	-	-	-	-	-	-	250,198	-	250,198
Total income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(1,178)**	**251,376**	**(111,098)**	**139,100**
Scrip dividend	85,406	-	-	(85,406)	-	-	-	-	-	-
Cash dividend	-	-	-	-	(78,289)	-	-	-	-	(78,289)
Directors' remuneration	-	-	-	-	-	-	-	(1,350)	-	(1,350)
Transfer to special reserve	-	25,020	-	-	-	-	-	(25,020)	-	-
Transfer to statutory reserve	-	-	25,020	-	-	-	-	(25,020)	-	-
Proposed scrip dividend – 2008 (25%)	-	-	-	199,280	-	-	-	(199,280)	-	-
Donation paid	-	-	-	-	-	(1,000)	-	-	-	(1,000)
At 31 December 2008	**797,121**	**163,995**	**246,550**	**199,280**	**-**	**9,311**	**25,203**	**1,473**	**(101,628)**	**1,341,305**

The attached notes 1 to 25 form part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2008

	Share capital AED'000 (Note 17a)	Special reserve AED'000 (Note 17b)	Statutory reserve AED'000 (Note 17c)	Proposed scrip dividend AED'000 (Notes 17d)	Proposed cash dividend AED'000 (Note 17d)	General reserve AED'000 (Note 17e)	Revaluation reserve AED'000 (Note 17f)	Retained earnings AED'000	Cumulative changes in fair values AED'000 (Note 18)	Total AED'000
At 1 January 2007	635,460	117,840	200,395	76,255	50,837	6,311	-	145	5,631	1,092,874
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	-	3,839	3,839
Revaluation of land and building	-	-	-	-	-	-	26,970	-	-	26,970
Depreciation transfer for land and building	-	-	-	-	-	-	(589)	589	-	-
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	26,381	589	3,839	30,809
Profit for the year	-	-	-	-	-	-	-	211,348	-	211,348
Total income and expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**26,381**	**211,937**	**3,839**	**242,157**
Scrip dividend	76,255	-	-	(76,255)	-	-	-	-	-	-
Cash dividend	-	-	-	-	(50,837)	-	-	-	-	(50,837)
Directors' remuneration	-	-	-	-	-	-	-	(1,350)	-	(1,350)
Transfer to special reserve	-	21,135	-	-	-	-	-	(21,135)	-	-
Transfer to statutory reserve	-	-	21,135	-	-	-	-	(21,135)	-	-
Transfer to general reserve	-	-	-	-	-	4,000	-	(4,000)	-	-
Proposed scrip dividend – 2008 (12%)	-	-	-	85,406	-	-	-	(85,406)	-	-
Proposed cash dividend – 2008 (11%)	-	-	-	-	78,289	-	-	(78,289)	-	-
At 31 December 2007	**711,715**	**138,975**	**221,530**	**85,406**	**78,289**	**10,311**	**26,381**	**767**	**9,470**	**1,282,844**

The attached notes 1 to 25 form part of these financial statements.

1 INCORPORATION AND ACTIVITIES

United Arab Bank was incorporated as a public company with limited liability in the Emirate of Sharjah in 1975 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries on the business of commercial banking through its ten offices and branches in the United Arab Emirates.

2 BASIS OF PREPARATION

Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investments other than held to maturity investments and land and buildings. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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 when otherwise indicated.

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 laws.

New accounting Standards and Interpretations

The Bank has adopted the following new and amended 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 for the current year.

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.

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.

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.*

2 BASIS OF PREPARATION - continued

IASB Standards and Interpretations issued but not adopted

The following IASB Standards and Interpretations have been issued but are not yet mandatory, and have not yet been adopted by the Bank:

Amendments to IFRS 2 Share-based Payment

The IASB issued an amendment to IFRS 2 in January 2008 which becomes effective for 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. The amendment is not expected to have any impact on the financial position or performance of the Bank as it does not have transactions that this interpretation relates to.

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.*

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 Revised Presentation of Financial Statements

The revised Standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The application of this standard will result in amendments to the presentation of the financial statements. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank is still evaluating whether it will have one or two 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 fulfil 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 such instruments.

2 BASIS OF PREPARATION - continued

IASB Standards and Interpretations issued but not adopted - continued

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 not have a significant impact on the financial position or performance of the Bank as it has not entered into any such hedges.

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. The Bank management has concluded that the interpretation is not expected to have any impact on the Bank's financial position or performance as it has got no such instruments.

Improvements to IFRSs'

IFRS 7 Financial Instruments: Disclosures:
Removal of the reference to 'total interest income' as a component of finance costs.

IAS 8 Accounting Policies, Change in Accounting Estimates and Errors:
Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

IAS 10 Events after the Reporting Period:
Clarification that dividends declared after the end of the reporting period are not obligations.

IAS 16 Property, Plant and Equipment:
Replace the term "net selling price" with "fair value less costs to sell".

IAS 18 Revenue:
Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.

IAS 36 Impairment of Assets:
When discounted cash flows are used to estimate 'fair value less cost to sell additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use.

The application of the above standards and improvements to IFRSs' will result in amendments to the presentation of the financial statements including, in some cases, revisions to the accounting policies.

2 BASIS OF PREPARATION - continued

Significant management judgements and estimates

Judgements

In the process of applying the bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments:

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading 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 held to maturity and available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. 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 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.

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

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 expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

When the Bank enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

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 cost 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 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.

Trading investments

These are initially recognised at fair value. 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 other income according to the terms of the contract or when the right of payment has been established.

Non – trading investments

Non – trading investments are classified as follows:

- Held to maturity
- Available for sale

All non-trading securities are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

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 rate method, less provision for impairment in value.

3 SIGNIFICANT ACCOUNTING POLICIES - continued

Non – trading investments - continued

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 and 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. That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the income statement. Fair value changes, which are not part of an effective hedging relationship, 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.

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.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 profit or loss.

Fair values

For securities 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.

The fair value of forward foreign exchange contracts is calculated by reference to forward exchange rates with similar maturities. The fair value of unquoted derivatives is determined either by discounted cash flows, (internal) pricing models or by reference to broker's quotes.

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 the expected discounted cash flows.

Property and equipment

Property and equipment are stated at cost or valuation excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

3 SIGNIFICANT ACCOUNTING POLICIES – continued

Property and equipment - continued

Revaluation of land and building is carried out on an open market basis for existing use. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings. Fair value is determined from market based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are made with regularity to ensure that their carrying value does not differ materially from their fair value at the balance sheet date.

Depreciation is calculated on a straight line basis over the estimated useful lives of other property and equipment as follows:

Buildings	over 20 years
Motor vehicles	over 3 years
Furniture, fixtures and equipment	over 3 to 8 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.

Deposits

All money market and customer deposits are carried at cost less amounts repaid. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the income statement.

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 amortised 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 in 'Provision for credit losses'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3 SIGNIFICANT ACCOUNTING POLICIES – continued

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

The Bank enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. 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.

Changes in the fair values of derivatives held for trading activities or to offset other trading positions are included in other operating income in the income statement.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Changes in the fair value of derivatives that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in a separate component of equity, and the ineffective portion recognised in the income statement. The gains or losses on cash flow hedges recognised initially in equity are transferred to the income statement in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability the associated gain or loss that had been initially recognised in equity is included in the initial measurement of the cost of the related asset or liability.

Change in fair value of derivatives or non-derivatives that are designated and qualify, as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the income statement over the remaining term to maturity.
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. When such transaction occurs the gain or loss retained in equity is recognised in the income statement or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Certain derivative transactions, while providing effective economic hedges under the Bank's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income.

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In addition to the provision for specific impaired loans and advances, collective provisions are made to cover impairment against specific groups of assets where there is a measurable decrease in estimated future cash flows.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on present value of estimated future cash flows discounted at the original effective interest rate;
(b) for assets carried at fair value, impairment is the difference between cost and fair value; and
(c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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.

4 INTEREST AND SIMILAR INCOME

	2008 AED'000	2007 AED'000
Interest on loans and advances to customers	**329,395**	290,034
Interest on money market and inter bank transactions	**39,599**	41,475
Interest on investments	**20,547**	11,787
Others	**415**	346
	389,956	**343,642**
Incom on financial assets designated at fair value through profit and loss account	**2,732**	6,430
	392,688	350,072

5 INTEREST EXPENSE AND SIMILAR CHARGES

	2008 AED'000	2007 AED'000
Interest and expenses on inter bank transactions	**33,458**	13,623
Interest on customer deposits	**80,056**	94,720
	113,514	108,343
Interest and expenses on financial liabilities designated at fair value through profit and loss account	**878**	5,793
Loss on interest rate swap	**4,678**	-
	119,070	114,136

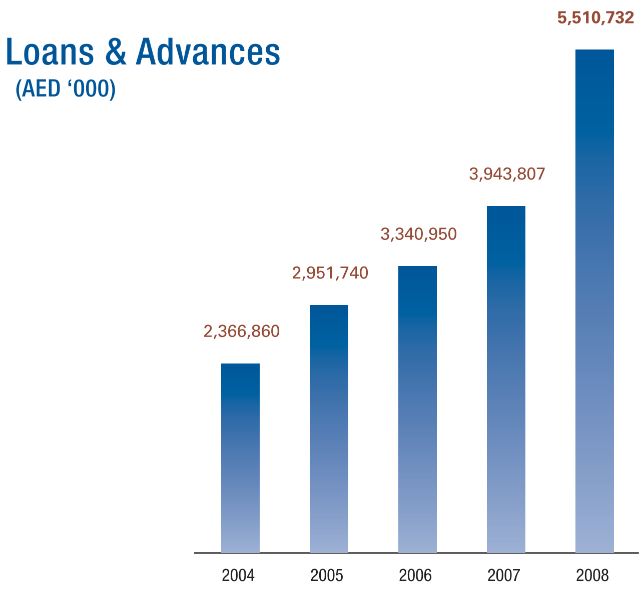
6 OTHER OPERATING INCOME

	2008 AED'000	2007 AED'000
Charges recovered from customers	**17,203**	15,738
Income from participation in Initial Public Offerings	**-**	582
Premium received on options/forward contracts	**8,907**	3,800
Income from collections	**4,138**	2,881
Others	**662**	3,338
	30,910	26,339

7 LOANS AND ADVANCES

The composition of the loans and advances portfolio is as follows:

	2008 AED'000	2007 AED'000
(a) By type:		
Overdrafts	**1,077,703**	916,196
Loans	**2,980,487**	2,245,583
Loans against trust receipts	**1,159,104**	655,271
Bills discounted	**188,563**	126,254
Other cash advances	**170,920**	81,532
Bills drawn under letters of credit	**67,319**	43,586
Gross amount of loans and advances	**5,644,096**	4,068,422
Less: Provision for impairment of loans and advances	**(117,602)**	(109,131)
Interest in suspense	**(15,762)**	(15,484)
Net loans and advances	**5,510,732**	3,943,807
(b) By economic sector:		
Government and public sector	**347,795**	282,457
Trade	**1,192,084**	1,090,325
Personal loans	**1,508,831**	1,162,493
Manufacturing	**1,523,364**	770,017
Construction	**378,430**	197,955
Services	**203,946**	202,574
Financial institutions	**396,230**	268,428
Transport and communication	**75,538**	66,681
Agriculture	**17,571**	27,186
Others	**307**	306
	5,644,096	4,068,422
(c) By classification:		
Corporate	**4,765,974**	3,517,264
Retail	**878,122**	551,158
	5,644,096	4,068,422



7 LOANS AND ADVANCES – continued

Loans and advances are stated net of interest in suspense and provision for impairment of loans and advances. The movements for interest in suspense and provisions are as follows:

	2008		2007	
	Interest in suspense AED'000	***Impairment provisions AED'000***	*Interest in suspense AED'000*	*Impairment provisions AED'000*
Balance at 1 January	**15,484**	**109,131**	17,545	96,894
Suspended/ provided during the year	**4,416**	**26,787**	4,854	27,215
Released during the year	**(415)**	**(4,967)**	(1,792)	(7,421)
	4,001	**21,820**	3,062	19,794
Amounts written off during the year	**(3,723)**	**(13,349)**	(5,123)	(7,557)
Balance at 31 December	**15,762**	**117,602**	15,484	109,131

At 31 December 2008, gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued or where interest is suspended amounted to AED 91,370,000 (2007: AED 98,406,000).

The fair value of collateral that the Bank holds relating to loans to corporate customers individually determined to be impaired at 31 December 2008 amounts to Nil (2007: AED 9,150,000). The collateral consists of cash, securities, letters of guarantee and properties. Loans to retail customers are secured to the extent of approximately 25% (2007: 25%) through the assignment of their end of service benefits.

Collateral repossessed

During the year, the Bank had no material collateral repossessed.

8 PROPERTY AND EQUIPMENT

	Freehold land and buildings AED'000	*Motor vehicles, furniture, fixtures and equipment AED'000*	*Capital work-in-progress AED'000*	*Total AED'000*
Cost or valuation:				
At 1 January 2008	32,194	38,586	958	71,738
Additions	-	5,280	3,968	9,248
Disposals	-	(2,547)	-	(2,547)
At 31 December 2008	**32,194**	**41,319**	**4,926**	**78,439**
Depreciation:				
At 1 January 2008	589	28,218	-	28,807
Charge for the year	1,178	4,388	-	5,566
Relating to disposals	-	(2,547)	-	(2,547)
At 31 December 2008	**1,767**	**30,059**	**-**	**31,826**
Net carrying value: at 31 December 2008	**30,427**	**11,260**	**4,926**	**46,613**

8 PROPERTY AND EQUIPMENT – continued

	Freehold land and buildings AED'000	Motor vehicles, furniture, fixtures and equipment AED'000	Capital work-in-progress AED'000	Total AED'000
Cost or valuation:				
At 1 January 2007	21,320	37,004	496	58,820
Additions	-	4,007	462	4,469
Disposals	-	(2,425)	-	(2,425)
Revaluation surplus	26,970	-	-	26,970
Elimination of accumulated depreciation on revaluation	(16,096)	-	-	(16,096)
At 31 December 2007	32,194	38,586	958	71,738
Depreciation:				
At 1 January 2007	16,096	26,048	-	42,144
Charge for the year	589	4,312	-	4,901
Relating to disposals	-	(2,142)	-	(2,142)
Elimination of accumulated depreciation on revaluation	(16,096)	-	-	(16,096)
At 31 December 2007	589	28,218	-	28,807
Net carrying value: at 31 December 2007	31,605	10,368	958	42,931

The cost of freehold land included above is AED 5,224,000 (2007: AED 5,224,000).

Revaluation of freehold land and building

The Bank engaged M/s Continental Real Estate Property Consultants, an independent valuer, to determine the fair value of the land and building. Fair value is determined by reference to open market values on an existing use basis. The date of revaluation was 16 June 2007.

If the freehold land and building were measured using the cost model, the net carrying amount at 31 December 2008 would be AED 5,224,000 (2007: AED 5,224,000).

9 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the year by the number of shares outstanding during the year as follows:

	2008	2007
Profit for the year net of directors' remuneration of AED 1,350,000 (2007: AED 1,350,000)	**248,848,000**	209,998,000
Number of shares of AED 1 each outstanding during the year	**797,121,000**	797,121,000
Basic and diluted earnings per share	**AED 0.31**	AED 0.26

The earnings per share of AED 0.30 as reported for 2007 has been adjusted for the effect of the shares issued in 2008 as a result of the scrip dividend.

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.

10 CASH AND BALANCES WITH UAE CENTRAL BANK

	2008 AED'000	2007 AED'000
Cash on hand	**38,729**	29,015
Balances with UAE Central Bank:		
Clearing accounts	**3,765**	(1,058)
Reserve requirements	**320,013**	232,672
Certificates of deposit (Note 14)	**25,000**	820,000
	387,507	1,080,629

The reserve requirements are kept with the UAE Central Bank in AED and USD, are not available for use in the Bank's day to day operations and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

11 DUE FROM BANKS

Due from banks include AED 643,612,000 (2007: AED 404,857,000) placed with foreign banks abroad.

12 INVESTMENTS

	2008			2007		
	Quoted AED'000	***Unquoted AED'000***	***Total AED'000***	*Quoted AED'000*	*Unquoted AED'000*	*Total AED'000*
Debt:						
Held to maturity						
Local	**36,729**	**-**	**36,729**	36,729	-	36,729
Overseas	**-**	**-**	**-**	-	-	-
	36,729	**-**	**36,729**	36,729	-	36,729
Available for sale						
Local	**291,201**	**25,000**	**316,201**	111,581	-	111,581
Overseas	**67,436**	**75,000**	**142,436**	93,131	-	93,131
	358,637	**100,000**	**458,637**	204,712	-	204,712
Total debt securities	**395,366**	**100,000**	**495,366**	241,441	-	241,441
Equity:						
Available for sale						
Local	**-**	**-**	**-**	17,440	-	17,440
Overseas	**254**	**76**	**330**	-	76	76
Total equities	**254**	**76**	**330**	17,440	76	17,516
Total investments	**395,620**	**100,076**	**495,696**	258,881	76	258,957

13 OTHER ASSETS

	2008 AED'000	2007 AED'000
Interest receivable	**14,933**	15,879
Positive fair value of derivatives (Note 20)	**7,251**	3,562
Cheques awaiting clearance	**77,793**	42,609
Prepayments and other assets	**31,635**	5,704
	131,612	67,754

14 DUE TO UAE CENTRAL BANK

	2008 AED'000	2007 AED'000
Overdraft account	**63,173**	-
Fixed term borrowing against certificate of deposit	**25,000**	-
	88,173	-

The overdraft amount carries interest at 300 basis points over the applicable rates on certificates of deposit whilst the fixed term borrowing attracts interest at 150 basis points.

15 CUSTOMER DEPOSITS

	2008 AED'000	2007 AED'000
Term and call deposits	**3,097,921**	2,416,092
Current accounts	**1,816,038**	1,649,091
Saving accounts	**55,348**	57,571
	4,969,307	4,122,754

16 OTHER LIABILITIES

	2008 AED'000	2007 AED'000
Interest payable	**17,743**	15,824
Staff related provisions	**43,603**	34,293
Negative fair values of derivatives (Note 20))	**10,466**	2,840
Others	**77,560**	30,135
	149,372	83,092

Staff related provisions

The aggregate employee entitlement liability comprises:

Employees' end of service benefits	**32,644**	25,111
Other liabilities	**10,959**	9,182
	43,603	34,293

16 OTHER LIABILITIES – continued

Staff related provisions - continued

In accordance with 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:

	2008 *AED'000*	2007 *AED'000*
Liability as at 1 January	**25,111**	21,886
Expense recognised in the income statement	**8,435**	4,623
End of service benefits paid	**(902)**	(1,398)
Liability as at 31 December	**32,644**	25,111

17 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid share capital of the Bank comprises 797,121,000 (2007: 711,715,000) shares of AED 1 each.

At an Extraordinary General Assembly held on 20 February 2008, the Bank's shareholders approved an increase in the issued share capital of the Bank to AED 797,121,000 by means of a scrip dividend of 85,406,000 shares of AED 1 each.

An Extraordinary General Assembly is to be held during April 2009 to approve an increase in the Bank's Authorized and issued share capital to enable the proposed scrip dividend of 199,280,000 shares of AED 1 each (2007: 85,406,000 shares of AED 1 each) to be made.

b) Special reserve

Article 82 of Union Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

c) Statutory reserve

Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) Dividends

The directors have proposed a scrip dividend amounting to AED 199,280,000 at AED 0,25 per share of AED 1 each (2007: scrip dividend of AED 85,405,800 at AED 0.12 per share of AED 1 each. The directors have not proposed a cash dividend for the current year (2007: cash dividend of AED 78,288,650 at AED 0.11 per share of AED 1 each). This is subject to the approval of the shareholders at the Annual General Assembly to be held during April 2009 as well as approval of the regulatory authorities.

e) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

f) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and building and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

18 CUMULATIVE CHANGES IN FAIR VALUES

	Available for sale investments and securities AED'000	*Cash flow hedges AED'000*	*Total AED'000*
At 1 January 2008	**8,758**	**712**	**9,470**
Net unrealised losses on available for sale financial investments	**(103,153)**	**-**	**(103,153)**
Realised gains on available for sale financial investments reclassified to income statement on disposal	**(8,720)**	**-**	**(8,720)**
Net unrealised gains on cash flow hedges	**-**	**1,487**	**1,487**
Net gains on cash flow hedges reclassified to the income statement	**-**	**(712)**	**(712)**
At 31 December 2008	**(103,115)**	**1,487**	**(101,628)**

	Available for sale investments and securities AED'000	*Cash flow hedges AED'000*	*Total AED'000*
At 1 January 2007	5,547	84	5,631
Net unrealised losses on available for sale financial investments	8,658	-	8,658
Realised gains on available for sale financial investments reclassified to income statement on disposal	(5,447)	-	(5,447)
Net unrealised gains on cash flow hedges	-	712	712
Net gains on cash flow hedges reclassified to the income statement	-	(84)	(84)
At 31 December 2007	8,758	712	9,470

19 RELATED PARTY TRANSACTIONS

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel. All the 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 and transactions during the year with related parties were as follows:

	2008 ***AED'000***	2007 *AED'000*
Shareholders, directors, their related entities and key management personnel		
Due from banks	**146,900**	-
Due to banks	**147,193**	-
Loans and advances	**195,488**	126,600
Customer deposits	**782,435**	471,910
Commitments and contingencies	**236,713**	242,023
Accrued interest income	**408**	-
Accrued interest expense	**510**	-

19 RELATED PARTY TRANSACTIONS – continued

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

	2008 *AED'000*	2007 *AED'000*
Shareholders, directors, their related entities and key management personnel		
Interest income	**143,137**	15,990
Interest expense	**56,381**	7,392
Management fees	**2,046**	-
Director's remuneration	**1,350**	1,350

Compensation of key management personnel is as follows:

	2008 *AED'000*	2007 *AED'000*
Salaries and other benefits	**10,617**	7,943

	2008	2007
Number of key management personnel	**15**	12

The Bank has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 1,951,000 (2007: AED 1,826,000). The property rentals are negotiated each year at market rates.

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2008, the Bank has not recorded any impairment of amounts owed by related parties (2007: Nil).

20 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 instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

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

At 31 December 2008				*Notional amounts by term to maturity*		
	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount AED'000*	*Within 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*
Derivatives held for trading:						
Forward foreign exchange contracts	**660**	**684**	**422,048**	**133,077**	**288,971**	**-**
Foreign currency options	**5,104**	**5,104**	**799,689**	**762,935**	**36,754**	**-**
Derivatives held as cash flow hedges:						
Interest rate swaps	**1,487**	**4,678**	**146,900**	**-**	**36,725**	**110,175**
	7,251	**10,466**	**1,368,637**	**896,012**	**362,450**	**110,175**

20 DERIVATIVES - continued

At 31 December 2007				Notional amounts by term to maturity		
	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount AED'000*	*Within 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*
Derivatives held for trading:						
Forward foreign exchange contracts	24	14	94,815	65,031	29,784	-
Foreign currency options	2,826	2,826	751,805	408,344	343,461	-
	2,850	2,840	846,620	473,375	373,245	-
Derivatives held as cash flow hedges:						
Interest rate swaps	712	-	36,729	-	-	36,729
	3,562	2,840	883,349	473,375	373,245	36,729

The derivative are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transaction and bank's best estimate of the most appropriate model inputs (Note 24).

Cash flow hedges are used to hedge the exposure to variability in cash flows arising from interest rate fluctuations in loans and advances and available for sale debt securities. In 2008, a loss of AED 4,678,000 (2007: Nil) was recognised in the income statement due to hedge ineffectiveness.

Derivative product types

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

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

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

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. Approximately 54% (2007: 53%) of the Bank's derivative contracts are entered into with other financial institutions and less than 46% (2007: 47%) of the fair value of favourable contracts is with any individual counterparty at the balance sheet date.

Purpose of derivatives

In the normal course of meeting the needs of the Bank's customers, the bank is party to forward foreign exchange and option contracts, interest rate swaps and forward rate agreements. In addition, as part of its asset and liability management, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

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

Since strategic hedging does not qualify for special hedge accounting, forward foreign exchange and option contracts are accounted for as trading instruments.

21 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments

The Bank's contractual amounts in respect of letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses and require a payment of a fee. Since commitments may expire without being drawn down, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit related commitments all of which mature within one year or less:

	2008 ***AED'000***	2007 *AED'000*
Contingent liabilities		
Letters of credit	**686,333**	639,530
Guarantees and acceptances	**3,349,642**	2,139,096
	4,035,975	2,778,626
Commitments		
Undrawn loan commitments	**2,526,638**	**1,962,473**

22 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.

Supervisory Board

The Supervisory Board (The Executive Credit Committee) has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

22 RISK MANAGEMENT – continued

Risk Management Unit
The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Risk Controlling Unit
The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralised unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

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 annually by the 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 Chairman.

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 from all the businesses 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 Risk Committee, and the head of each business division. 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 receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Chief Executive Officer and all other relevant members of management 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.

The Bank actively uses collateral to reduce its credit risks.

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.

22 RISK MANAGEMENT – continued

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 established a 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 and commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	***Gross maximum exposure*** **2008** ***AED'000***	*Gross maximum exposure* 2007 *AED'000*
Cash and balances with central bank (excluding cash on hand)	10	**348,778**	1,051,614
Due from banks	11	**988,289**	790,554
Loans and advances	7	**5,510,732**	3,943,807
Investments	12	**495,696**	258,957
Other assets	13	**131,612**	67,754
Total		**7,475,107**	6,112,686
Letters of credit	21	**686,333**	639,530
Guarantees and acceptances	21	**3,349,642**	2,139,096
Undrawn loans commitments	21	**2,526,638**	1,962,473
Total		**6,562,613**	4,741,099
Total credit risk exposure		**14,037,720**	10,853,785

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 discussed 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 205,000,000 (2007: AED 249,831,000) before taking account of collateral or other credit enhancements and AED 205,000,000 (2007: AED 249,831,000) net of such protection.

22 RISK MANAGEMENT- continued

Credit Risk – continued

Risk concentrations of the maximum exposure to 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		
	Assets	**Liabilities and equity**	**Contingent liabilities and commitments**	*Assets*	*Liabilities and equity*	*Contingent liabilities and commitments*
	AED'000	**AED'000**	**AED'000**	*AED'000*	*AED'000*	*AED'000*
United Arab Emirates	**6,654,936**	**6,261,236**	**6,307,121**	5,622,963	5,653,057	3,675,140
Other Middle East countries	**667,678**	**516,695**	**28,759**	351,159	323,162	114,590
Europe	**199,223**	**754,508**	**170,513**	207,970	194,306	233,922
USA	**17,801**	**5,926**	**1,229**	432	11,069	22,484
Rest of the world	**20,811**	**22,084**	**54,991**	2,108	3,038	694,963
Total	**7,560,449**	**7,560,449**	**6,562,613**	6,184,632	6,184,632	4,741,099

An industry sector analysis of the Bank's on-balance sheet financial assets (excluding cash on hand), before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2008 AED'000	*Gross maximum exposure* 2007 *AED'000*
Financial services	**1,843,831**	2,258,750
Other services	**402,060**	362,618
Manufacturing	**1,523,364**	770,017
Construction	**389,816**	197,955
Trade	**1,192,084**	1,090,325
Government and public sector	**523,995**	282,457
Other	**1,733,321**	1,275,179
	7,608,471	6,237,301
Less: Impairment provision on loans and advances	**(133,364)**	(124,615)
	7,475,107	6,112,686

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 cash, securities, charges over real estate properties, inventory and trade receivables.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

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.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

22 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 credit rating system.

	Neither past due nor impaired			***Past due or individually impaired***	***Total***
	High grade	***Standard grade***	***Sub-standard grade***		
	2008 *AED'000*	**2008** *AED'000*	**2008** *AED'000*	**2008** *AED'000*	***2008*** *AED'000*
Due from banks	**864,646**	**123,643**	**-**	**-**	**988,289**
Investments	**336,098**	**159,598**	**-**	**-**	**495,696**
Loans and advances (Gross)	**1,742,032**	**2,911,858**	**755,146**	**235,060**	**5,644,096**
	2,942,776	**3,195,099**	**755,146**	**235,060**	**7,128,081**

	Neither past due nor impaired			*Past due or individually impaired*	*Total*
	High grade	*Standard grade*	*Sub-standard grade*		
	2007 *AED'000*	2007 *AED'000*	2007 *AED'000*	2007 *AED'000*	2007 *AED'000*
Due from banks	687,191	103,363	-	-	790,554
Investments	105,072	153,885	-	-	258,957
Loans and advances (Gross)	1,081,238	2,208,144	576,285	202,755	4,068,422
	1,873,501	2,465,392	576,285	202,755	5,117,933

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

22 RISK MANAGEMENT- continued

Credit Risk - continued

Credit risk exposure of the Bank's on-balance sheet financial assets for each internal risk rating

	Moody's equivalent grades	***Historical default rates* 2008**	*Historical default rates* 2007	***Total* 2008 *AED'000***	*Total* 2007 *AED'000*
High grade					
Risk rating class 1	Aaa	**-**	-	**1,604,284**	1,051,614
Risk rating class 2	Aa1-A3	**0.25%**	0.25%	**1,687,640**	1,876,496
Standard grade					
Risk rating class 3	Ba1	**0.50%**	0.75%	**2,285,416**	1,689,524
Risk rating class 4	Ba2-Ba3	**1.25%**	1.50%	**1,054,508**	838,434
Sub Standard grade					
Risk rating class 0	B3	**1.75%**	2.00%	**819,930**	582,798
Risk rating class 5	Caa-C	**3.00%**	3.00%	**65,323**	100,029
Impaired					
Risk rating class 6, 7 & 8	D	**93.25%**	92.50%	**91,370**	98,406
				7,608,471	6,237,301
Less: Impairment provision and interest in suspense on loans and advances				**(133,364)**	(124,615)
				7,475,107	6,112,686

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all 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 rating 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.

22 RISK MANAGEMENT- continued

Credit Risk - continued

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	Less than 30 days 2008 AED'000	**31 to 60 days 2008 AED'000**	**61 to 90 days 2008 AED'000**	**More than 91 Days 2008 AED'000**	**Total 2008 AED'000**
Loans and advances	**109,871**	**20,294**	**-**	**13,525**	**143,690**

	Less than 30 days 2007 *AED'000*	*31 to 60 days* 2007 *AED'000*	*61 to 90 days* 2007 *AED'000*	*More than 91 Days* 2007 *AED'000*	*Total* 2007 *AED'000*
Loans and advances	79,783	8,582	4,083	11,901	104,349

The fair value of the collateral that the Bank held at 31 December 2008 for past due but not impaired loans and advances to customers covers approximately 85% (2007: 85%) of the outstanding balance.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2008 ***AED'000***	2007 *AED'000*
Loans and advances	**76,019**	105,440

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.

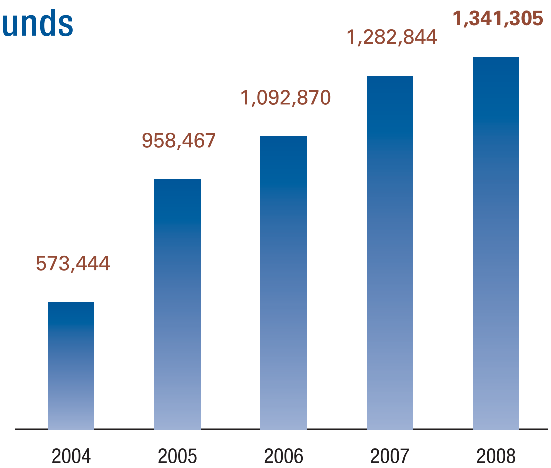
22 RISK MANAGEMENT- continued

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:

	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	387,507	-	-	387,507	-	-	-	-	387,507
Due from banks	988,289	-	-	988,289	-	-	-	-	988,289
Loans and advances	2,698,857	706,381	415,410	3,820,648	1,695,901	127,547	1,823,448	-	5,644,096
Investments	61,354	35,994	-	97,348	398,018	-	398,018	330	495,696
Property and equipment	-	-	-	-	-	-	-	46,613	46,613
Other assets	131,612	-	-	131,612	-	-	-	-	131,612
Provision for impairment of loans and advances and interest in suspense	(133,364)	-	-	(133,364)	-	-	-	-	(133,364)
Sub total	4,134,255	742,375	415,410	5,292,040	2,093,919	127,547	2,221,466	46,943	7,560,449
Liabilities and Shareholders' Funds									
Due to UAE Central Bank	88,173	-	-	88,173	-	-	-	-	88,173
Due to banks	398,142	-	246,900	645,042	367,250	-	367,250	-	1,012,292
Customer deposits	4,046,346	169,775	304,294	4,520,415	448,892	-	448,892	-	4,969,307
Other liabilities	116,728	-	-	116,728	-	-	-	32,644	149,372
Shareholders' funds	-	-	-	-	-	-	-	1,341,305	1,341,305
Sub total	4,649,389	169,775	551,194	5,370,358	816,142	-	816,142	1,373,949	7,560,449
Net liquidity gap	(515,134)	572,600	(135,784)	(78,318)	1,277,777	127,547	1,405,324	(1,327,006)	-

Shareholders' Funds
(AED '000)



22 RISK MANAGEMENT– continued

Liquidity Risk - continued

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

	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	1,045,629	35,000	-	1,080,629	-	-	-	-	1,080,629
Due from banks	790,554	-	-	790,554	-	-	-	-	790,554
Loans and advances	1,812,561	444,292	513,656	2,770,509	1,230,036	67,877	1,297,913	-	4,068,422
Investments	-	-	-	-	216,441	25,000	241,441	17,516	258,957
Property and equipment	-	-	-	-	-	-	-	42,931	42,931
Other assets	67,754	-	-	67,754	-	-	-	-	67,754
Provision for impairment of loans and advances and interest in suspense	(124,615)	-	-	(124,615)	-	-	-	-	(124,615)
Sub total	3,591,883	479,292	513,656	4,584,831	1,446,477	92,877	1,539,354	60,447	**6,184,632**
Liabilities and Shareholders' Funds									
Due to banks	328,692	-	-	328,692	367,250	-	367,250	-	695,942
Customer deposits	3,358,997	349,852	249,936	3,958,785	163,969	-	163,969	-	4,122,754
Other liabilities	57,981	-	-	57,981	-	-	-	25,111	83,092
Shareholders' funds	-	-	-	-	-	-	-	1,282,844	1,282,844
Sub total	3,745,670	349,852	249,936	4,345,458	531,219	-	531,219	1,307,955	6,184,632
Net liquidity gap	(153,787)	129,440	263,720	239,373	915,258	92,877	1,008,135	(1,247,508)	-

22 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.

Financial liabilities	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2008						
Due to UAE Central Bank	**63,173**	**25,003**	**-**	**-**	**-**	**88,176**
Due to banks	**26,354**	**372,110**	**250,673**	**380,344**	**-**	**1,029,481**
Customer deposits	**1,943,150**	**2,111,514**	**483,444**	**491,501**	**-**	**5,029,609**
Other liabilities	**105,769**	**10,959**	**32,644**	**-**	**-**	**149,372**
Financial derivatives	**-**	**1,419**	**983**	**4,172**	**-**	**6,574**
Total undiscounted financial liabilities	**2,138,446**	**2,521,005**	**767,744**	**876,017**	**-**	**6,303,212**
31 December 2007						
Due to banks	80,860	268,742	-	369,214	-	718,816
Customer deposits	1,695,107	1,669,460	609,827	177,144	-	4,151,538
Other liabilities	48,799	9,182	25,111	-	-	83,092
Financial derivatives	-	1,013	762	1,293	-	3,068
Total undiscounted financial liabilities	1,824,766	1,948,397	635,700	547,651	-	4,956,514

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
31 December 2008						
Inflows	**-**	**498**	**2,428**	**506**	**-**	**3,432**
Outflows	**-**	**(1,419)**	**(983)**	**(4,172)**	**-**	**(6,574)**
Net	**-**	**(921)**	**1,445**	**(3,666)**	**-**	**(3,142)**
Discounted at applicable interbank rates	**-**	**(915)**	**1,435**	**(3,467)**	**-**	**(2,947)**

22 RISK MANAGEMENT– continued

Liquidity Risk - continued

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2007						
Inflows	-	-	1,557	1,552	-	3,109
Outflows	-	(1,013)	(762)	(1,293)	-	(3,068)
Net	-	(1,013)	795	259	-	41
Discounted at applicable interbank rates	-	(999)	773	233	-	7

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

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
2008						
Contingent liabilities	**-**	**2,256,679**	**1,375,872**	**403,424**	**-**	**4,035,975**
Commitments	**2,526,638**	**-**	**-**	**-**	**-**	**2,526,638**
Total	**2,526,638**	**2,256,679**	**1,375,872**	**403,424**	**-**	**6,562,613**
2007						
Contingent liabilities	-	1,733,438	920,294	124,894	-	2,778,626
Commitments	1,962,473	-	-	-	-	1,962,473
Total	1,962,473	1,733,438	920,294	124,894	-	4,741,099

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

22 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.

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. There is no material impact on the Bank's equity.

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 non-trading financial assets and financial liabilities held at 31 December 2008, including the effect of hedging instruments.

	2008		2007	
Currency	***Change in basis points***	***Sensitivity of net interest income AED'000***	*Change in basis points*	*Sensitivity of net interest income AED'000*
USD	**+25**	**3,844**	+10	1,380
USD	**-25**	**(3,844)**	-10	(1,380)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading financial assets and financial liabilities denominated in other currencies.

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 income statement (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

	2008		2007	
Currency	***Change in currency rate %***	***Effect on profit AED'000***	*Change in currency rate %*	*Effect on profit AED'000*
Euro	**+10**	**11**	+10	12
GBP	**+10**	**4**	+10	1

As the UAE Dirham is currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

22 RISK MANAGEMENT– continued

Market Risk – 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:

	2008		2007	
	Change in equity price %	***Effect on equity AED'000***	*Change in equity price %*	*Effect onequity AED'000*
All investments	+10	176	+10	1,975

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.

23 SEGMENTAL ANALYSIS

Primary segment information

For management purposes the Bank is organised into three major business segments:

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;

Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

Treasury - principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of placements with and acceptances from other banks, through treasury and wholesale banking.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

23 SEGMENTAL ANALYSIS - continued

Primary segment information - continued

Segmental information for the year ended 31 December 2008 was as follows:

	Retail banking AED'000	***Corporate banking AED'000***	***Treasury AED'000***	***Total AED'000***
Interest and other income	**72,201**	**392,465**	**73,572**	**538,238**
Profit for the year	**31,140**	**169,268**	**49,790**	**250,198**
Segment assets	**877,132**	**4,764,009**	**1,919,308**	**7,560,449**
Segment liabilities	**1,048,755**	**4,042,842**	**1,127,547**	**6,219,144**
Other segment information				
Capital expenditure - Property and equipment	**1,073**	**5,831**	**2,344**	**9,248**
Depreciation	**668**	**3,173**	**1,725**	**5,566**
Impairment losses on loans and advances	**13,953**	**7,867**	**-**	**21,820**

Segmental information for the year ended 31 December 2007 was as follows:

	Retail banking AED'000	*Corporate banking AED'000*	*Treasury AED'000*	*Total AED'000*
Interest and other income	59,240	311,011	87,732	457,983
Profit for the year	23,662	124,223	63,463	211,348
Segment assets	603,671	3,425,365	2,155,596	6,184,832
Segment liabilities	1,103,843	3,090,002	707,943	4,901,788
Other segment information				
Capital expenditure - Property and equipment	435	2,467	1,567	4,469
Depreciation	476	2,706	1,719	4,901
Impairment losses on loans and advances	18,140	1,654	-	19,794

Secondary segment information

The Bank operates in only one geographic area, the United Arab Emirates. Accordingly, no further geographical analysis of operating income, profit and net assets is given.

24 FAIR VALUES 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. The fair value of the Bank's derivative contracts is shown in note 20.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market and those where the valuation techniques involve the use of non-market observable inputs.

	Quoted market prices AED'000	*Valuation techniques- market observable inputs AED'000*	*Valuation techniques- non-market observable inputs AED'000*	*Total AED'000*
31 December 2008				
Financial assets				
Investments in debt securities	**395,366**	**-**	**100,000**	**495,366**
Other investments	**254**	**-**	**76**	**330**
Derivative financial instruments	**-**	**7,251**	**-**	**7,251**
	395,620	**7,251**	**100,076**	**502,947**
Financial liabilities				
Derivative financial instruments	**-**	**10,466**	**-**	**10,466**

Certain financial instruments are recorded at fair value using valuation techniques as current market transactions or observable market data are not available. The potential effect of using reasonable possible alternative assumptions (mainly discount rates) would result in an increase in the fair value by AED 3,875,000 for every 100 basis points decrease and a decrease in the fair value by AED 3,687,000 for every 100 basis points increase in the discount rates.

	Quoted market prices AED'000	*Valuation techniques- market observable inputs AED'000*	*Valuation techniques- non-market observable inputs AED'000*	*Total AED'000*
31 December 2007				
Financial assets				
Investments in debt securities	241,441	-	-	241,441
Other investments	17,440	-	76	17,516
Derivative financial instruments	-	3,562	-	3,562
	258,881	3,562	76	262,519
Financial liabilities				
Derivative financial instruments	-	2,840	-	2,840

25 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.

25 CAPITAL ADEQUACY - continued

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	*Balance*		*Risk weighted equivalents*	
	2008 *AED'000*	2007 *AED'000*	**2008** *AED'000*	2007 *AED'000*
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	**38,729**	29,015	**-**	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	**1,071,316**	843,682	**214,263**	168,736
Claims secured by mortgage of residential property	**1,373,416**	976,769	**1,373,416**	976,769
Claims on public sector entities, central governments, central banks and longer term claims on banks incorporated in non-OECD countries and all other assets, including claims on private sector entities				
Claims at 0%	**965,058**	1,562,676	**-**	-
Claims at 20%	**77,793**	42,609	**15,559**	8,522
Claims at 50%	**3,648**	772	**1,824**	386
Claims at 100%	**4,030,489**	2,729,109	**4,030,489**	2,729,109
	7,560,449	6,184,632		
Off balance sheet items				
Credit commitments and contingent items (note 21)	**4,035,975**	2,778,626	**2,607,798**	1,501,087
Derivatives (note 20)	**568,948**	131,544	**3,511**	859
Credit risk weighted assets and off balance sheet items			**8,246,860**	5,385,468
Market risk weighted assets and off balance sheet items			**-**	-
Total risk weighted assets			**8,246,860**	5,385,468
Risk asset ratio			**12.9%**	19.3%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation 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 in respect of capital adequacy.