

FC 9607

321041/30

Mashreq bank Annual Report 2008

FRIDAY



AGL9D8BG

A19

20/03/2009

29

COMPANIES HOUSE

Independent Auditor's Report

Ref.: 7848CFS08-GLOSSARY REPORT-FINAL

Independent Auditor's Report

**The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mashreqbank psc ("the Bank"), a Public Shareholding Company, and its Subsidiaries (collectively "the Group"), which comprise the consolidated balance sheet as of December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Mashreqbank psc and its subsidiaries as of December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Central Bank of the United Arab Emirates requirements.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Bank has maintained proper books of accounts. We obtained all the information and explanations which we considered necessary for our audit and, to the best of our knowledge and belief, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. 8 of 1984, as amended, or of the Bank's Articles of Association which might have materially affected the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

**Dubai
February 8, 2009**

**Anis Sadek
Partner
Registration No. 521**

Group Financial Statements

Consolidated Balance Sheet
As of December 31, 2008

		2008		2007	
	Note	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Assets					
Cash and balances with central banks	5	6,289,386	1,712,329	20,200,123	5,499,625
Deposits and balances due from banks	6	9,077,630	2,471,448	10,974,141	2,987,787
Financial assets carried at FVTPL	7	219,776	59,836	10,023,141	2,728,870
Loans and advances (net)	8	48,434,274	13,186,571	32,980,680	8,979,222
Islamic financing and investment products	9	6,600,704	1,797,088	2,345,269	638,516
Non-trading investments	7	13,189,058	3,590,813	4,749,018	1,292,953
Interest receivable and other assets	10	8,231,536	2,241,093	5,472,924	1,490,042
Investment properties	11	724,237	197,179	498,440	135,704
Property and equipment	12	476,920	129,845	383,661	104,454
Total assets		93,243,521	25,386,202	87,627,397	23,857,173
Liabilities					
Deposits and balances due to banks	13	12,336,491	3,358,696	13,397,024	3,647,434
Repurchase agreements with banks	14	5,129,883	1,396,647	3,834,313	1,043,919
Customers' deposits	15	48,435,538	13,186,915	46,133,514	12,560,173
Islamic customers' deposits	16	3,042,027	828,213	2,153,198	586,223
Insurance and life assurance funds	17	802,485	218,482	516,895	140,728
Interest payable and other liabilities	18	7,568,835	2,060,668	5,857,323	1,594,696
Medium-term floating rate notes	19	5,234,025	1,425,000	5,234,025	1,425,000
Long-term loans	20	11,838	3,223	16,707	4,549
Total liabilities		82,561,122	22,477,844	77,142,999	21,002,722
Equity					
Capital and reserves					
Issued capital	21(a)	1,463,870	398,549	1,126,054	306,576
Statutory and legal reserves	21(b)	740,734	201,670	599,009	163,085
General reserve	21(c)	312,000	84,944	312,000	84,944
Cumulative translation adjustment		(33,932)	(9,238)	(2,155)	(587)
Investments revaluation reserve		(649,634)	(176,867)	510,578	139,009
Retained earnings		8,231,655	2,241,125	7,068,366	1,924,412
Equity attributable to equity holders of the parent		10,064,693	2,740,183	9,613,852	2,617,439
Minority interest	22	617,706	168,175	870,546	237,012
Total equity		10,682,399	2,908,358	10,484,398	2,854,451
Total liabilities and equity		93,243,521	25,386,202	87,627,397	23,857,173

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

The consolidated financial statements on pages 28 to 83 were approved by the Board of Directors on February 8, 2009 and signed on its behalf by:

Abdulla Ahmad Al Ghurair
Chairman

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Consolidated Income Statement
For the year ended December 31, 2008

	Note	2008		2007	
		AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Interest income	24	4,563,103	1,242,337	3,949,981	1,075,410
Income from Islamic financing and investment products	25	228,889	62,317	81,508	22,191
Total interest income and income from Islamic financing and investment products		4,791,992	1,304,654	4,031,489	1,097,601
Interest expense	26	(2,632,701)	(716,771)	(2,788,349)	(759,148)
Distributions to depositors – Islamic products	27	(75,516)	(20,560)	(42,682)	(11,620)
Net interest income and income from Islamic products net of distributions to depositors		2,083,775	567,323	1,200,458	326,833
Fee and commission income	28	2,617,041	712,508	2,804,829	763,634
Fee and commission expenses	28	(1,364,271)	(371,432)	(1,713,625)	(466,546)
Net fee and commission income		1,252,770	341,076	1,091,204	297,088
Net investment (loss)/income	29	(217,980)	(59,347)	873,759	237,887
Other income (net)	30	865,373	235,604	685,065	186,515
Operating income		3,983,938	1,084,656	3,850,486	1,048,323
General and administrative expenses	31	(1,873,962)	(510,199)	(1,409,787)	(383,824)
Allowances for loans and advances and other financial assets	32	(362,362)	(98,656)	(308,385)	(83,960)
Income before income tax		1,747,614	475,801	2,132,314	580,539
Overseas income tax expense		(15,545)	(4,233)	(6,319)	(1,720)
Net income for the year		1,732,069	471,568	2,125,995	578,819
Attributed to:					
Equity holders of the parent		1,642,830	447,272	1,900,632	517,461
Minority interest	22	89,239	24,296	225,363	61,358
		1,732,069	471,568	2,125,995	578,819
Earnings per share	33	AED 11.22	US\$ 3.06	AED 12.98	US\$ 3.54

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

Consolidated Statement of Changes in Equity
For the year ended December 31, 2008

	Issued capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Cumulative translation adjustment AED'000	Investments revaluation reserve AED'000	Retained earnings AED'000	Equity attributable to equity holders of the parent AED'000	Minority interest AED'000	Total AED'000
At December 31, 2006	866,195	469,453	312,000	(11,449)	184,220	5,557,149	7,377,568	571,395	7,948,963
Net movement on investment revaluation reserve during the year	-	-	-	-	326,358	-	326,358	149,521	475,879
Overseas entities' translation adjustment	-	-	-	9,294	-	-	9,294	31	9,325
Total income recognised directly in equity	-	-	-	9,294	326,358	-	335,652	149,552	485,204
Net income for the year	-	-	-	-	-	1,900,632	1,900,632	225,363	2,125,995
Total income for the year	-	-	-	9,294	326,358	1,900,632	2,236,284	374,915	2,611,199
Transfer to statutory and legal reserves	-	129,556	-	-	-	(129,556)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(31,011)	(31,011)
Bonus shares issued	259,859	-	-	-	-	(259,859)	-	-	-
Reduction in minorities' share capital	-	-	-	-	-	-	-	(44,753)	(44,753)
At December 31, 2007	1,126,054	599,009	312,000	(2,155)	510,578	7,068,366	9,613,852	870,546	10,484,398
Net movement on investment revaluation reserve during the year	-	-	-	-	(1,160,212)	-	(1,160,212)	(305,684)	(1,465,896)
Overseas entities' translation adjustment	-	-	-	(31,777)	-	-	(31,777)	(1)	(31,778)
Total loss recognised directly in equity	-	-	-	(31,777)	(1,160,212)	-	(1,191,989)	(305,685)	(1,497,674)
Net income for the year	-	-	-	-	-	1,642,830	1,642,830	89,239	1,732,069
Total income for the year	-	-	-	(31,777)	(1,160,212)	1,642,830	450,841	(216,446)	234,395
Transfer to statutory and legal reserves	-	141,725	-	-	-	(141,725)	-	-	-
Dividend paid	-	-	-	-	-	-	-	(35,972)	(35,972)
Bonus shares issued	337,816	-	-	-	-	(337,816)	-	-	-
Reduction in minorities' share capital	-	-	-	-	-	-	-	(422)	(422)
At December 31, 2008	1,463,870	740,734	312,000	(33,932)	(649,634)	8,231,655	10,064,693	617,706	10,682,399

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

Consolidated Cash Flow Statement
For the year ended December 31, 2008

	2008		2007	
	AED'000	US\$'000 Equivalent	AED'000	US\$'000 Equivalent
Cash flows from operating activities				
Net income for the year	1,732,069	471,568	2,125,995	578,819
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property and equipment	82,727	22,523	67,400	18,350
Fair value adjustment – FVTPL investments	192,203	52,329	(136)	(37)
Translation adjustment for the year	(31,778)	(8,652)	9,325	2,539
Allowance for impairment of loans and advances	500,174	136,176	462,035	125,792
Fair value adjustment – investment property	(152,467)	(41,510)	(152,732)	(41,582)
(Gain)/loss on sale of property and equipment	(57,730)	(15,717)	67	18
Amortization of investments revaluation reserves for reclassified investments	20,226	5,507	-	-
Available for sale investments written off	68,612	18,680	-	-
Impairment of available for sale	35,012	9,532	-	-
Changes in operating assets and liabilities:				
Increase in deposits with central banks for regulatory purposes	(827,898)	(225,401)	(417,507)	(113,669)
Decrease/(increase) in bank deposits maturing after three months	1,678,607	457,013	(3,792,028)	(1,032,406)
Increase in customers' loans and advances	(15,932,539)	(4,337,745)	(4,870,482)	(1,326,023)
Increase in Islamic financing and investing products	(4,255,435)	(1,158,572)	(1,516,255)	(412,811)
Increase in interest receivable and other assets	(2,759,764)	(751,365)	(2,691,119)	(732,676)
Decrease in financial assets carried at FVTPL	5,638,460	1,535,110	71,451	19,453
Increase in repurchase agreements with banks	1,295,570	352,728	2,548,701	693,902
Increase in customers' deposits	2,302,024	626,742	12,225,279	3,328,418
Increase in Islamic customers' deposits	888,829	241,990	1,405,308	382,605
Increase in medium-term floating rate notes	-	-	1,836,500	500,000
Decrease in long-term loans	(4,869)	(1,326)	(6,834)	(1,861)
(Decrease)/increase in deposits and balances due to banks	(1,060,533)	(288,738)	7,694,486	2,094,878
Increase in insurance and life assurance funds	285,590	77,754	142,955	38,921
Increase in interest payable and other liabilities	1,709,800	465,505	2,500,451	680,765
Net cash (used in)/provided by operating activities	(8,653,110)	(2,355,869)	17,642,860	4,803,395
Cash flows from investing activities				
Purchase of property and equipment	(181,922)	(49,530)	(149,880)	(40,806)
Proceeds from sale of property and equipment	63,666	17,334	1,027	280
Purchase of non-trading investments, net	(6,130,414)	(1,669,048)	(1,416,114)	(385,547)
Net cash used in investing activities	(6,248,670)	(1,701,244)	(1,564,967)	(426,073)
Cash flows from financing activities				
Dividend paid to minority	(35,972)	(9,794)	(31,011)	(8,443)
Net capital withdrawn by minority	(422)	(115)	(44,753)	(12,184)
Net cash used in financing activities	(36,394)	(9,909)	(75,764)	(20,627)
(Decrease)/increase in cash and cash equivalents (Note 35)	(14,938,174)	(4,067,022)	16,002,129	4,356,695

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

**Notes to the Consolidated Financial Statements
For the Year ended December 31, 2008**

1. General information

Mashreqbank psc (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank operates through its branches in the United Arab Emirates, Bahrain, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

At December 31, 2008, Mashreqbank psc Group (the "Group") comprises the Bank and the following subsidiaries:

Name of subsidiary	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Osool - a Finance Company (PJSC)	United Arab Emirates	98	98	Finance company.
Oman Insurance Company (PSC)	United Arab Emirates	63.65	63.65	Insurance company.
Mindscape Information Technology LLC	United Arab Emirates	99	99	Software/Application provider.
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage.
Injaz Services FZ LLC	United Arab Emirates	100	100	Service provider.
Al-Badr Islamic Finance (PJSC)	United Arab Emirates	99.70	99.70	Islamic finance company.
Mashreq Capital (DIFC) Limited	United Arab Emirates	100	100	Brokerage, asset management & fund management.
Al Yamama Services FZ LLC	United Arab Emirates	100	100	Service provider.
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Managing funds.
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Managing funds.
Makaseb Funds Company BSC III**	Kingdom of Bahrain	99.90	99.90	Managing funds.
Bracebridge Limited	British Virgin Islands	*	100	General activities.
Orriston Limited	British Virgin Islands	*	100	General activities.

* Bank participation in capital is nominal, however the above subsidiaries are considered to be subsidiaries by virtue of control.

** Makaseb Funds Company BSC III, Bahrain is under liquidation process.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

2. Adoption of new and revised International Financial Reporting Standards

Standards and interpretations effective in the current year

In the current year, the Group has adopted the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures which are effective from July 1, 2008. The impact of adoption of these amendments has been to expand the disclosures provided in these financial statements regarding the Group's reclassified financial instruments [see also Note 7(h)].

Three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) are effective for the current year. These are: IFRIC 11 - IFRS-2: Group Treasury Shares Transactions, IFRIC 12: Service Concession Arrangements and IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Standards and interpretations in issue not yet adopted

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1	(Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after January 1, 2009);
IAS 16	(Revised) Property, Plant and Equipment (effective for accounting periods beginning on or after January 1, 2009);
IAS 19	(Revised) Employee Benefits (effective for accounting periods beginning on or after January 1, 2009);
IAS 20	(Revised) Government Grants and Disclosure of Government Assistance (effective for accounting periods beginning on or after January 1, 2009);
IAS 23	(Revised) Borrowing Costs (effective for accounting periods beginning on or after January 1, 2009);
IAS 27	(Revised) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after July 1, 2009);
IAS 28	(Revised) Investments in Associates (effective for accounting periods beginning on or after July 1, 2009);
IAS 29	(Revised) Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after January 1, 2009);
IAS 31	(Revised) Interests in Joint Ventures (effective for accounting periods beginning on or after July 1, 2009);
IAS 32	(Revised) Financial Instruments: Presentation (effective for accounting periods beginning on or after January 1, 2009);
IAS 36	(Revised) Impairment of Assets (effective for accounting periods beginning on or after January 1, 2009);
IAS 38	(Revised) Intangible Assets (effective for accounting periods beginning on or after January 1, 2009);
IAS 39	(Revised) Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after January 1, 2009);
IAS 40	(Revised) Investment Property (effective for accounting periods beginning on or after July 1, 2009);
IAS 41	(Revised) Agriculture (effective for accounting periods beginning on or after July 1, 2009);

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

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

Standards and interpretations in issue not yet adopted (continued)

IFRS 1	(Revised) First-time Adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after January 1, 2009);
IFRS 2	(Revised) Share-based Payment (effective for accounting periods beginning on or after January 1, 2009);
IFRS 3	(Revised) Business Combinations (effective for accounting periods beginning on or after July 1, 2009);
IFRS 5	(Revised) Non-current Assets Held for Sale and Discontinued Operations (effective for accounting periods beginning on or after July 1, 2009);
IFRS 8	Operating Segments (effective for accounting periods beginning on or after January 1, 2009);
IFRIC 13	Customer Loyalty Programmes (effective for accounting periods beginning on or after July 1, 2008);
IFRIC 15	Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after January 1, 2009);
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective for accounting periods beginning on or after October 1, 2009); and
IFRIC 17	Distribution of Non-cash assets to owners (effective for accounting periods beginning on or after July 1, 2009).

The management anticipates that the adoption of these Standards and Interpretations will have an impact on the presentation and disclosures of the Group's consolidated financial statements which relate mainly to the requirement for the presentation of a statement of comprehensive income (Revised IAS 1 - comprehensive revision including presentation of comprehensive income) separately from owner changes in equity and expanded disclosures regarding operating segments (IFRS 8 - operating segments).

3. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) and Central Bank of the UAE requirements as related to the measurement and classification of properties acquired in settlement of debts and impairment of loans and advances.

(b) Basis of preparation

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments and investment property which are carried at fair value.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(d) Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) to hedge the related associated risk.

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

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

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(d) Derivative financial instruments and hedge accounting (continued)

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

Embedded derivatives

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

(e) Revenue recognition

Interest income and expense are recognized on a time proportion basis, taking account of the principal outstanding and the rate applicable. Interest income and expense include the amortization of discount or premium using the effective interest rate method. When there is doubt in the collection of the principal or the interest, the recognition of income ceases. Commission and fee income are generally accounted for on the date the transaction arises. Recoveries in respect of loans fully provided are accounted for on a cash receipt basis.

Dividend revenue from investments is recognized when the Group's right to receive payment has been established.

Premiums on general insurance policies are accounted for on the date of writing of policies except premium income on marine cargo policies which is accounted for on the expected date of voyage. Premiums are adjusted for unearned premium.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the consolidated income statement when incurred.

(f) Foreign currency transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in UAE Dirham (AED), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

The reporting currency of the Group is the UAE Dirham (AED). However, for presentation purposes only, additional columns for US Dollar equivalent amounts have been presented in the consolidated balance sheet, income statement and cash flow statement and certain notes to the consolidated financial statements using a conversion rate of US\$ 1.00 = AED 3.673.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(f) Foreign currency transactions (continued)

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see above for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in consolidated income statement on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the consolidated income statement in the period in which the foreign operation is disposed of.

(g) Impairment of tangible assets

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

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

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

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

(h) Investment properties

Investment properties comprise investments in buildings and freehold land held for capital appreciation and to earn rentals. These are initially stated at cost comprising purchase price and any directly attributable expenditure. For subsequent measurement purposes, the Group has chosen the fair value model as permitted by IAS 40, "Investment property", under which the investment property is carried at fair value with any revaluation gains or losses recognized in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(i) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses, except for capital work-in-progress which is carried at cost.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	<u>Years</u>
Group buildings	20 - 25
Office equipment (including computers) and vehicles	3 - 5
Furniture, fixtures and computer mainframe hardware	6 - 7
Improvements to freehold properties and others	5 - 10

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

(j) Financial assets

Investments are recognised and derecognised on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments' (HTM), 'available-for-sale' (AFS) financial assets and 'loans and advances' (L&A) classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(j) Financial assets (continued)

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Non-derivative financial assets held by the Group that are classified as AFS financial assets are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and advances

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

All loans and advances are initially measured at cost, being the fair value of the consideration given.

Loans and advances originated or acquired by the Group that are not quoted in an active market and for which fair value has not been hedged, and those that are to be held to maturity, are stated at amortised cost less any amount written off and provisions for impairment.

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(j) Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances where the carrying amount is reduced through the use of an allowance account. When advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

(i) Individually assessed loans

These represent mainly corporate loans which are assessed individually by the Bank's Credit Risk Unit in order to determine whether there exists any objective evidence that a loan is impaired.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price, if available, or at the fair value of the collateral if the recovery is entirely collateral dependent.

Impairment loss is calculated as the difference between the loan's carrying value and its present value calculated as above.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(j) Financial assets (continued)

Impairment of loans and advances (continued)

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

- a) Performing commercial and other loans
- b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant.

(a) Performing commercial and other loans

Where individually assessed loans are evaluated and no evidence of loss is present or has been identified, there may be losses based upon risk rating and expected migrations, product or industry characteristics.

Impairment covers losses which may arise from individual performing loans that are impaired at the balance sheet date but were not specifically identified as such until some time in the future.

The estimated impairment is calculated by the Group's management for each identified portfolio as per the requirements of the Central Bank of the UAE and based on historical experience, credit rating and expected migrations in addition to the assessed inherent losses which are reflected by the economic and credit conditions.

(b) Retail loans with common features which are rated on a portfolio basis and where individual loan amounts are not significant

Impairment of retail loans is calculated by applying a formulaic approach and loans are written off when between 150-180 days past their due date depending on products' features.

(k) Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(k) Financial liabilities and equity instruments issued by the Group (continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

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

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

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

(l) Customers' deposits

Customers' deposits (classified as other liabilities) are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

(m) Repurchase transactions

Securities sold under agreements to repurchase ("repo") continue to be recognized in the balance sheet and are measured in accordance with the accounting policies for FVTPL or for non-trading investments.

The difference between sale and repurchase price is treated as interest expense and expensed over the life of each agreement.

(n) Insurance Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries are charged to income as incurred. Provision for incurred but not reported claims is included within additional reserve.

The Group generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the balance sheet date and settlements and provisions for the following year is included in the underwriting account for that year.

(o) Liability adequacy test

At each balance sheet date the Group assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in income and an unexpired risk provision created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the balance sheet date.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(p) Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provisions and are in accordance with reinsurance contract.

(q) Employees' end-of-service indemnity

Provision is made for estimated amounts required to cover employees' end-of-service indemnity at the balance sheet date as per UAE Labour Law. In the opinion of management, the provision would not have been materially different had it been calculated on an actuarial basis.

(r) Pension and national insurance

Pension and national insurance contributions for UAE citizens are made by the Group in accordance with Federal Law No.7 of 1999.

(s) Taxes on income

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

(t) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the balance sheet only when there is a legally enforceable right to set off the recognized amounts or when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(u) De-recognition of financial instruments

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

In instances where the Group is assessed to have transferred a financial asset, the asset is derecognized if the Group has transferred substantially all the risks and rewards of ownership. Where the Group has neither transferred nor retained substantially all the risks and rewards of ownership, the financial asset is derecognized only if the Group has not retained control of the financial asset. The Group recognizes separately as assets or liabilities any rights and obligations created or retained in the process.

A financial liability (or a part of a financial liability) can only be derecognized when it is extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

(v) Islamic financing and investment products

In addition to the conventional banking, the Group offers its customers certain non-interest based banking products, which are approved by its Shariah Board.

All non-interest based banking products are accounted for in conformity with the accounting policies described in these consolidated financial statements.

(i) The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

(v) Islamic financing and investment products (continued)

(i) The following terms are used in Islamic financing: (continued)

Istissna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement whereby the Group acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise or the ownership of a certain property ending up with the acquisition by the customer of the full ownership. The profit or loss is shared as per the terms of the agreement.

Mudaraba

An agreement between the Group and a customer whereby the Group would provide a certain amount of funds, which the customer would then invest in a specific enterprise or activity against a specific share in the profit. The customer would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Revenue recognition

Revenue is recognized on the above Islamic products as follows:

Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time proportion basis over the period of the contract based on the principal amounts outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the Group's total Istissna'a cost) are accounted for on a time proportion basis.

Ijara

Ijara income is recognized on a time proportion basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

Mudaraba

Income on mudaraba financing is recognized on distribution by the mudarib, whereas the losses are charged to income on their declaration by the mudarib.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

3. Significant accounting policies (continued)

Wakala

Estimated income from Wakala is recognized on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(x) Operating leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies, which are described in Note 3. Such estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances. Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Impairment of loans

The Group's accounting policy for allowances in relation to impaired loans and advances is described in Note 3(j). Impairment is calculated on the basis of discounted estimated future cash flows or by applying a certain percentage on the performing unclassified loan book based on market trend and historical pattern of defaults. For retail loans impairment is calculated based on formulaic approach depending on past due instalments and payments.

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

Individually assessed loans

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

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

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

The Group's policy requires regular review of the level of impairment allowances on individual facilities.

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

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

Collectively assessed loans

The management of the Group assesses, based on historical experience and the prevailing economical and credit conditions, the magnitude of loans which may be impaired but not identified as of the balance sheet date.

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

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

Impairment of retail loans is calculated by applying formulaic approach and loans are written off between 150-180 days past their due date based on products features.

(ii) Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

(iii) Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iv) Impairment of available-for-sale equity investments

The Group exercises judgement to consider impairment on the available-for-sale equity investments. This includes the determination of whether a significant or prolonged decline in the fair value below cost has occurred. In addition, the Group also evaluates among other factors, the normal volatility in share price, and the investees net assets, dividend policy, earnings history and other factors affecting fair values. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(v) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (b) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

5. Cash and balances with central banks

	December 31,	
	2008	2007
	AED '000	AED '000
Cash on hand	454,043	231,137
Balances with central banks:		
Current accounts and other balances	910,067	1,574,196
Statutory cash ratio requirements	2,425,276	1,597,378
Certificates of deposit/placements with the Central Banks	2,500,000	16,797,412
	6,289,386	20,200,123

The Bank is required to maintain statutory deposits with various Central Banks on demand, time and other deposits as per the statutory requirements.

6. Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Demand	829,489	1,417,089
Overnight	603,151	1,452,975
Time	7,644,990	8,104,077
	9,077,630	10,974,141

(b) The above represent deposits and balances due from:

	December 31,	
	2008	2007
	AED '000	AED '000
Banks abroad	8,294,480	10,206,471
Banks in the UAE	783,150	767,670
	9,077,630	10,974,141

Deposits and balances due from banks include an amount of AED 582.20 million (2007: AED 13.04 million) being call margins held as collateral against repurchase agreements (Note 14).

7. Investments

(a) The analysis of the Group's investments is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Financial assets carried at fair value through profit and loss		
(i) Held for trading		
Debt securities	78,990	7,323,222
Discretionary managed fund	55,258	1,301,249
Equities	4,815	322,064
Investment funds	-	1,036,095
Other investments	17,092	40,511
	156,155	10,023,141

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

7. Investments (continued)

(a) The analysis of the Group's investments is as follows: (continued)

	December 31,	
	2008	2007
	AED '000	AED '000
(ii) Investments designated as at FVTPL		
Equities	63,621	-
	219,776	10,023,141
Non-trading investments		
(i) Available-for-sale		
Debt securities	1,354,071	1,687,851
Equities	1,561,844	2,709,398
Investment funds	578,298	-
Others	346,292	156,700
	3,840,505	4,553,949
(ii) Held-to-maturity		
Debt securities	9,350,443	196,959
	13,190,948	4,750,908
Less: Provision for impairment	(1,890)	(1,890)
	13,189,058	4,749,018
Total investments	13,408,834	14,772,159

(b) The geographic analysis of investments is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
UAE	7,790,080	7,898,537
Abroad	5,618,754	6,873,622
	13,408,834	14,772,159

(c) The analysis of investments by industry sector is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Government and Public Sector	3,674,918	3,243,075
Commercial and Business	441,045	1,569,456
Financial Institutions	8,346,857	7,170,354
Other	946,014	2,789,274
	13,408,834	14,772,159

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

7. Investments (continued)

- (d) The movements in the provision for the impairment of investment in securities during the year were as follows:

	2008 AED '000	2007 AED '000
Balance at January 1,	1,890	14,286
Write-back during the year	-	(12,396)
Balance at December 31,	1,890	1,890

- (e) "Held-for-trading" and "Available-for-sale" investments at December 31, 2008 included AED 84.75 million held in the name of "related parties" as nominees for the account and for the benefit of the Group (2007: AED 210.04 million).
- (f) The fair value of investments classified under held-to-maturity amounted to AED 7,733.05 million as of December 31, 2008 (2007: AED 193.57 million).
- (g) The above investments include debt securities aggregating to AED 6,107.427 million (2007: AED 4,531.404) [out of which held-for-trading at fair value of AED Nil (2007: AED 3,960.904 million), available-for-sale at fair value of AED 1,306.520 million (2007: AED 570.500 million) and held to maturity investments of AED 4,800.907 million (2007: AED Nil)] sold under repurchase agreements ("repos").
- (h) Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", issued by the International Accounting Standards Board (IASB) on October 13, 2008, the Group reclassified certain investments from Held For Trading ("HFT") to Held To Maturity ("HTM") and to Available For Sale ("AFS"). The Bank and other subsidiaries identified those assets, eligible under the amendments, for which at July 1, 2008 (in the case of the subsidiary Oman Insurance Company psc at September 30, 2008), it had a clear change of intent to hold for the foreseeable future or until maturity rather than to exit or trade in the short term. Under IAS 39 as amended, the reclassifications were made with effect from July 1, 2008 for the Bank and other subsidiaries and from September 30, 2008 for the subsidiary Oman Insurance Company PSC.

Moreover, the Group reclassified certain investments available for sale ("AFS") to investments held to maturity ("HTM") as permitted by IAS 39. The disclosures below detail the impact of the reclassifications to the Group as of December 31, 2008.

Details of the fair values of reclassified investments at date of reclassification (July 1, 2008 and September 30, 2008) and December 31, 2008 are as follows:

	The Bank and other subsidiaries		The subsidiary Oman Insurance PSC	
	December 31, 2008 AED '000	July 1, 2008 AED '000	December 31, 2008 AED '000	September 30, 2008 AED '000
HFT reclassified to HTM	2,475,753	2,694,124	-	-
HFT reclassified to AFS	956,160	1,141,043	92,109	137,535
AFS reclassified to HTM	5,114,610	6,442,856	-	-

As of the reclassification date, effective interest rates on reclassified investments ranged from 0% to 6%.

As result of the reclassification, the effect on net income of the Group for the year ended December 31, 2008 was an increase of AED 428.454 million (net of AED 20.226 million which represents amortization of revaluation losses recognized originally in equity and amortized over the life of the available for sale investments after being reclassified to held to maturity investments) representing a decline in fair value of the concerned investments which has not been recognised in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

8. Loans and advances (net)

(a) The analysis of the Group's loans and advances (net) is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Loans	41,023,640	27,359,922
Overdrafts	6,304,447	5,164,711
Credit Cards	1,964,967	1,367,155
Others	260,029	179,447
	49,553,083	34,071,235
Less: Allowance for impairment	(1,118,809)	(1,090,555)
	48,434,274	32,980,680

(b) The analysis of loans and advances (net) by industry sector is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Manufacturing	3,827,464	3,405,263
Construction	3,648,212	2,403,216
Trade	13,574,319	7,658,305
Transport and communication	2,328,397	1,702,992
Services	6,462,675	3,910,876
Financial institutions	1,501,173	729,823
Personal	12,165,643	9,091,102
Government/public sector	5,947,823	5,151,787
Others	97,377	17,871
	49,553,083	34,071,235
Less: Allowance for impairment	(1,118,809)	(1,090,555)
	48,434,274	32,980,680

Loans and advances include AED 1,153 million (2007: AED 377 million) of loans and advances that are past due but not impaired.

(c) In certain cases, the Group continues to carry classified doubtful debts and delinquent accounts on its books even after making 100% allowance for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to income statement. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted. The value of loans and advances on which interest is not taken to income, including fully provided accounts, amounted to AED 364 million at December 31, 2008 (2007: AED 383 million).

(d) The movement in the allowance for impairment of loans and advances during the year was as follows:

	2008	2007
	AED '000	AED '000
Balance at January 1,	1,090,555	923,854
Impairment allowance for the year	191,696	193,536
Interest in suspense	50,418	37,530
Amounts written off during the year	(177,334)	(15,627)
Recoveries during the year	(36,526)	(48,738)
Balance at December 31,	1,118,809	1,090,555

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

9. Islamic financing and investment products

(a) The analysis of the Group's Islamic financing and investment products is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
<u>Financing</u>		
Murabaha	3,058,883	336,118
Ijara	1,909,519	761,199
	4,968,402	1,097,317
<u>Investing</u>		
Musharakah	1,433,576	614,190
Sukuk and funds	104,342	343,189
Mudaraba	64,865	-
Wakala	-	292,892
Others	47,031	-
	1,649,814	1,250,271
	6,618,216	2,347,588
Less: Unearned income	(17,008)	(1,825)
Provision for impairment	(504)	(494)
	6,600,704	2,345,269

(b) The analysis of Islamic financing and investment products by industry sector is as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Construction	288,771	586,223
Trade	409,826	752
Transport and communication	252,365	3,010
Services	2,384,197	485,934
Financial institutions	592,028	876,214
Personal	433,153	191,791
Government/public sector	1,931,700	203,664
Others	326,176	-
	6,618,216	2,347,588
Less: Unearned income	(17,008)	(1,825)
Provision for impairment	(504)	(494)
	6,600,704	2,345,269

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

10. Interest receivable and other assets

	December 31,	
	2008	2007
	AED '000	AED '000
Interest receivable	345,446	317,208
Prepaid interest and expenses	99,048	66,802
Positive fair value of derivatives – Note 40	2,710,007	2,433,377
Acceptances	1,896,615	1,337,223
Split foreign exchange agreement	1,829,154	553,925
Insurance related receivables	814,872	497,293
Credit Card interchange receivables	33,949	59,848
Taxes paid in advance	9,673	33,300
Others	492,772	173,948
	8,231,536	5,472,924

11. Investment properties

	2008	2007
	AED '000	AED '000
Interest in buildings and freehold land – at fair value		
Balance at January 1,	498,440	361,739
Additions during the year	73,330	15,770
Sold during the year	-	(31,801)
Change in fair value during the year	152,467	152,732
Balance at December 31,	724,237	498,440

The fair value of investment properties for the subsidiaries Osool - A Finance Company (PJSC) and Oman Insurance Company (PSC) as of December 31, 2008 has been arrived at on the basis of a valuation carried out on November 22, 2008 and on December 18, 2008 respectively by independent valuers.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

12. Property and equipment

	Property for own use	Property acquired in settlement of debts	Furniture, fixtures, equipment & vehicles	Improvements to freehold properties and others	Capital work-in- progress	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
Cost						
At December 31, 2006	162,064	21,551	197,456	131,284	32,166	544,521
Additions	3,033	176	44,071	42,223	60,377	149,880
Disposals/write-offs	-	-	(34,456)	(6,704)	-	(41,160)
At December 31, 2007	165,097	21,727	207,071	166,803	92,543	653,241
Additions	2,179	2	52,539	33,937	93,265	181,922
Disposals/write-offs	(7,170)	-	(63,206)	(14,805)	-	(85,181)
Transfers	159,159	-	11,189	1,125	(171,473)	-
At December 31, 2008	319,265	21,729	207,593	187,060	14,335	749,982
Accumulated depreciation						
At December 31, 2006	79,052	-	118,103	45,091	-	242,246
Charge for the year	5,769	-	31,506	30,125	-	67,400
Disposals/write-offs	-	-	(33,442)	(6,624)	-	(40,066)
At December 31, 2007	84,821	-	116,167	68,592	-	269,580
Charge for the year	9,534	-	38,303	34,890	-	82,727
Disposals/write-offs	(4,925)	-	(62,104)	(12,216)	-	(79,245)
At December 31, 2008	89,430	-	92,366	91,266	-	273,062
Carrying amount						
At December 31, 2008	229,835	21,729	115,227	95,794	14,335	476,920
At December 31, 2007	80,276	21,727	90,904	98,211	92,543	383,661

At December 31, 2008, the fair value of properties acquired in settlement of debts was AED 276.60 million (2007: AED 285.24 million).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

13. Deposits and balances due to banks

	December 31,	
	2008	2007
	AED '000	AED '000
Time	10,527,107	10,515,527
Demand	1,326,096	1,550,649
Overnight	483,288	1,330,848
	12,336,491	13,397,024

The above represent borrowings from:

Banks abroad	8,037,405	9,095,490
Banks in the UAE	4,299,086	4,300,553
Overseas central banks	-	981
	12,336,491	13,397,024

Borrowings from banks abroad include an amount of AED 1,836.5 million (US\$ 500 million) [2007: AED 1,836.5 million (US\$ 500 million)] being a 5 years loan obtained through a syndicate of banks maturing in July 2012. The loan carries a floating rate of interest which is fixed by reference to 3 months LIBOR (2007: 6 months LIBOR)

14. Repurchase agreements with banks

Repo borrowing

Tenure	Due date	Interest rate	December 31,	
			2008	2007
			AED '000	AED '000
5 year	October 2011	3 months USD Libor	183,650	183,650
6 months	June 2008	6 months USD Libor	-	768,032
6 months	June 2008	6 months USD Libor	-	1,070,763
3 months	March 2008	3 months USD Libor	-	919,136
3 months	June 2008	3 months USD Libor	-	892,732
6 months	January 2009	6 months USD Libor	1,151,149	-
6 months	February 2009	6 months USD Libor	1,257,084	-
6 months*	January 2009	3% per annum	2,538,000	-
			5,129,883	3,834,313

* Amount represents a repurchase agreement with the UAE Central Bank.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

15. Customers' deposits

	December 31,	
	2008	2007
	AED '000	AED '000
Current and other accounts	11,492,582	10,506,336
Saving accounts	841,098	659,141
Time deposits	36,101,858	34,968,037
	48,435,538	46,133,514

Analysis of economic activities:

	December 31,	
	2008	2007
	AED '000	AED '000
Government and Public Sector	9,219,270	8,564,312
Commercial & Business	25,142,639	20,393,667
Personal	11,904,031	13,302,637
Financial Institutions	1,685,220	3,730,962
Others	484,378	141,936
	48,435,538	46,133,514

Customer deposits include an amount of AED 3,444 million received from the Ministry of Finance of the UAE (AED 1,687 million matures in October 2011 and AED 1,757 million matures in November 2013) as part of the liquidity support made available to UAE banks in view of the recent credit crisis. Interest is paid every three months and calculated on prevailing coupon on the United States Treasury benchmark 5 year note plus 120 basis points or 4% which ever is higher.

16. Islamic customers' deposits

	December 31,	
	2008	2007
	AED '000	AED '000
Current and other accounts	139,554	72,272
Saving accounts	4,087	1,109
Time deposits	2,898,386	2,079,817
	3,042,027	2,153,198

17. Insurance and life assurance funds

	Outstanding claims	Unearned premium reserve	Additional reserve	Life assurance fund	December 31,	
					2008	2007
					Total	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at January 1,	144,561	277,698	51,750	42,886	516,895	373,940
Increase	98,054	118,544	35,163	33,829	285,590	142,955
Balance at December 31,	242,615	396,242	86,913	76,715	802,485	516,895

Unearned premium reserve is calculated as a percentage of annual premiums earned, net of reinsurance. Additional reserves are also made for the estimated excess of potential claims and claims incurred but not reported at the balance sheet date.

Life assurance fund is determined by independent actuarial valuation of future policy benefits.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

18. Interest payable and other liabilities

	December 31,	
	2008	2007
	AED '000	AED '000
Accrued interest payable	480,744	442,334
Negative fair value of derivatives – Note 40	2,930,729	2,482,251
Acceptances	1,896,615	1,337,223
Insurance premium collected in advance	562,663	381,542
Accrued expenses	537,264	376,186
Income received in advance – discounted bills	321,156	205,985
Pay orders issued	253,670	157,691
Provision for end-of-service indemnity	128,662	104,070
Credit Card related	35,062	38,610
Provision for taxation	11,107	32,704
Others	411,163	298,727
	7,568,835	5,857,323

19. Medium-term floating rate notes

During 2004, the Bank established a Euro Medium Term Note (EMTN) programme for US\$ 750 million (AED 2,754.75 million) under fiscal agency agreement dated February 4, 2004. The EMTN programme was increased to US\$ 2,000 million (AED 7,346 million) under fiscal agency agreement dated March 21, 2006.

The maturities of the bonds (FRN) issued under the programme are as follows:

		December 31,	
		2008	2007
		AED '000	AED '000
<u>Due date</u>	<u>Interest rate</u>		
February 27, 2009	3 months Libor + 0.55%	1,101,900	1,101,900
March 23, 2010	3 months Libor + 0.40%	1,193,725	1,193,725
April 6, 2011	3 months Libor + 0.38%	1,101,900	1,101,900
January 24, 2017	3 months Libor + 0.625%	1,836,500	1,836,500
		5,234,025	5,234,025

The US\$ 500 Million (AED 1,836 million) tranche issued during January 2007 is a subordinated floating rate note and qualifies for Tier 2 subordinated loan capital for the first 5 years till 2012 and thereafter it will be amortized at the rate of 20% per annum for the next five years until 2017 for capital adequacy calculations. However, FRN is callable in 5 years (i.e. in 2012) if not redeemed on completion of 5 years, there is provision for step up in coupon rate of 0.5% for next 5 years. This subordinated FRN has been approved by UAE Central Bank for recognition of Tier 2 capital.

20. Long-term loans

These represent long-term loans provided by the Real Estate Committee of the UAE to refinance real estate loans made by the Group to various UAE citizens, which are included in loans and advances (net).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

21. Capital and reserves

(a) Issued capital

During the year ended December 31, 2008, a proposed bonus share distribution, of 3 shares for each 10 shares was approved by the Board of Directors and ratified by the shareholders at the Annual General Meeting.

As of December 31, 2008, 146,386,994 ordinary shares of AED 10 each (2007: 112,605,380 ordinary shares of AED 10 each) were issued and are fully paid up.

(b) Statutory and legal reserves

In accordance with Union Law 10/80 of UAE, 10% of the net income for the year is to be transferred to statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE this level is 50% of the issued share capital). The legal reserve relates to the Bank's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Ordinary General Meeting.

22. Minority interest

	December 31,	
	2008	2007
	AED '000	AED '000
Balance at January 1,	870,546	571,395
Dividends	(35,972)	(31,011)
Share in investments revaluation reserve	(305,684)	149,521
Share in translation adjustments	(1)	31
Share of net income for the year	89,239	225,363
Reduction in minority's capital	(422)	(44,753)
Balance at December 31,	617,706	870,546

23. Contra accounts and commitments

	December 31,	
	2008	2007
	AED '000	AED '000
(a) Contra accounts (memoranda)		
Guarantees	39,539,729	30,920,961
Letters of credit	7,346,914	7,242,966
	46,886,643	38,163,927
(b) Derivative financial instruments (Note 40)	132,743,826	213,069,614
Total contra account and commitments (a + b)	179,630,469	251,233,541

The outstanding unutilised facilities as at December 31, 2008 amounted to AED 54,085 million (2007: AED 46,210 million), of which amounts committed were AED 4,725 million (2007: AED 4,216 million) and amounts uncommitted were AED 49,360 million (2007: AED 41,994 million).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

23. Contra accounts and commitments (continued)

(c) Contra accounts – maturity profile

The maturity profile of the Group's contra accounts were as follows:

2008						
	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Guarantees	10,910,837	20,946,501	4,541,981	3,111,556	28,854	39,539,729
Letters of credit	1,966,181	3,314,422	1,760,398	301,666	4,247	7,346,914
	12,877,018	24,260,923	6,302,379	3,413,222	33,101	46,886,643

2007						
	Within 3 months	Over 3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Guarantees	23,609,921	2,216,863	1,983,095	2,751,731	359,351	30,920,961
Letters of credit	4,289,203	849,599	691,823	1,411,375	966	7,242,966
	27,899,124	3,066,462	2,674,918	4,163,106	360,317	38,163,927

The analysis of commitments and contingencies by geographic region and industry sector is shown in Note 37.

(d) Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Less than 1 year	49,271	44,826
1 to 5 years	58,459	51,178
Over 5 years	149,865	153,628
	257,595	249,632

24. Interest income

	December 31,	
	2008	2007
	AED '000	AED '000
Loans and advances	3,120,795	2,599,287
Banks	801,002	913,873
Non-trading Investments	395,717	63,365
Central Banks	245,589	373,456
	4,563,103	3,949,981

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

25. Income from Islamic financing and investment products

	December 31,	
	2008	2007
	AED '000	AED '000
Financing		
Murabaha	99,356	8,640
Ijara	62,687	22,020
Others	1,766	-
	<u>163,809</u>	<u>30,660</u>
Investing		
Musharaka	47,142	26,733
Sukuk and Funds	11,118	9,817
Wakala	4,571	14,298
Mudaraba	1,413	-
Others	836	-
	<u>65,080</u>	<u>50,848</u>
	228,889	81,508

26. Interest expense

	December 31,	
	2008	2007
	AED '000	AED '000
Customers' deposits	1,515,521	1,827,052
Central Banks	23,072	3
Banks	866,301	656,320
Medium term loans	227,807	304,974
	2,632,701	2,788,349

27. Distribution to depositors – Islamic products

This represents the share of income allocated due to depositors of the Group. The allocation and distribution to depositors is approved by the Bank's Sharia Board.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

28. Net fee and commission income

	December 31,	
	2008	2007
	AED '000	AED '000
Fee and commission income		
Commission income	1,330,514	1,686,713
Brokerage and asset management	46,092	40,107
Insurance commission	160,388	117,039
Fees and charges on banking services	390,888	455,556
Credit Card related fee	538,009	413,509
Others	151,150	91,905
Total fee and commission income	2,617,041	2,804,829
Fee and commission expenses		
Commission expense	861,432	1,356,052
Brokerage and asset management	312	512
Insurance commission	206,908	145,772
Credit Card related expenses	278,005	189,853
Others	17,614	21,436
Total fee and commission expenses	1,364,271	1,713,625
Net fee and commission income	1,252,770	1,091,204

29. Net investment (loss)/income

	December 31,	
	2008	2007
	AED '000	AED '000
(a) Financial assets carried at FVTPL		
Net realized investment (loss)/gain	(123,736)	252,767
Fair value adjustments	(192,203)	136
Interest income	117,386	385,846
Dividends income	1,121	88
	(197,432)	638,837
(b) Non trading investment income		
Net realized investment gain	34,393	139,316
Available for sale investments written off	(68,612)	-
Amortization of investments reserves for reclassified investments	(20,226)	-
Dividends income	68,909	95,606
Impairment loss of available for sale investments	(35,012)	-
	(20,548)	234,922
Total (a + b)	(217,980)	873,759

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

30. Other income (net)

	December 31,	
	2008	2007
	AED '000	AED '000
Fair value adjustments of investment property	152,467	152,732
Income from investment property	366	405
Foreign exchange gains (net)	271,168	161,425
Insurance underwriting profit	424,680	315,249
Gain/(loss) on sale of property and equipment	57,730	(67)
Rental income from properties	4,546	5,127
Fair value adjustment – derivatives	(159,938)	(13,125)
Others	114,354	63,319
	865,373	685,065

31. General and administrative expenses

	December 31,	
	2008	2007
	AED '000	AED '000
Salaries and employees related expenses	1,094,258	828,036
Depreciation on property and equipment	82,727	67,400
Other general and administration expenses	696,977	514,351
	1,873,962	1,409,787

Compensation of key management (included above under “salaries and employee related expenses”) comprise salaries, bonuses and other benefits amounting in total to AED 108.813 million (2007: AED 116.090 million) – Note 36.

32. Allowances for loans and advances and other financial assets

	2008			
	Corporate and others		Non-specific	Total
	Retail	others		
	AED'000	AED'000	AED'000	AED'000
Provision for impaired loans and advances	9,932	74,500	107,264	191,696
Provision for/write off of investments and others	-	20,077	-	20,077
Provision for other debtors	-	1,152	-	1,152
Write-off of impaired loans	287,134	115	-	287,249
Recovery of loans previously written off	(104,351)	(33,461)	-	(137,812)
	192,715	62,383	107,264	362,362

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

32. Allowances for loans and advances and other financial assets (continued)

	2007			
	Retail	Corporate and others	Non-specific	Total
	AED'000	AED'000	AED'000	AED'000
Provision for impaired loans and advances	10,640	82,896	100,000	193,536
Provision for/write off of investments and others	-	17,815	-	17,815
Provision for other debtors (reversal)	-	(8,513)	-	(8,513)
Write-off of impaired loans	247,601	11,596	-	259,197
Recovery of loans previously written off	(97,607)	(56,043)	-	(153,650)
	160,634	47,751	100,000	308,385

33. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the number of shares outstanding during the year as follows:

	December 31,	
	2008	2007
Net income for the year (AED'000) (Attributed to equity holders of the parent)	1,642,830	1,900,632
Number of ordinary shares outstanding	146,386,994	146,386,994
Earnings per share (AED)	11.22	12.98

The number of ordinary shares outstanding as of December 31, 2007 has been adjusted to reflect the bonus shares issued during 2008 [Note 21(a)].

34. Foreign restricted assets

Net assets equivalent to AED 66,266 million as of December 31, 2008 (2007: AED 76,736 million) maintained by certain branches of the Bank, operating outside the United Arab Emirates, are subject to exchange control regulations of the countries in which these branches operate.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

35. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Central Bank certificates of deposits, balances with banks and money market placements which are maturing within three months from the date of the deposit or placement, as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Cash on hand, current accounts and deposits with Central Banks	6,289,386	20,200,123
Deposits and balances due from banks	9,077,630	10,974,141
	<u>15,367,016</u>	<u>31,174,264</u>
Less: Deposits with Central Banks for regulatory purposes	(2,425,276)	(1,597,378)
Less: Deposits maturing after 3 months	(4,670,922)	(6,367,894)
	<u>8,270,818 (a)</u>	<u>23,208,992 (b)</u>
Decrease in cash and cash equivalents – 2008 [(a) – (b)]	(14,938,174)	

	December 31,	
	2008	2007
	AED '000	AED '000
Cash on hand, current accounts and deposits with central banks	20,200,123	2,405,688
Deposits and balances due from banks	10,974,141	8,556,912
	<u>31,174,264</u>	<u>10,962,600</u>
Less: Deposits with central banks for regulatory purposes	(1,597,378)	(1,179,871)
Less: Deposits maturing after 3 months	(6,367,894)	(2,575,866)
	<u>23,208,992 (a)</u>	<u>7,206,863 (b)</u>
Increase in cash and cash equivalents – 2007 [(a) – (b)]	16,002,129	

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

36. Related party transactions

- a) Certain "related parties" (such as, directors and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties. Such related party transactions are disclosed below. Other "related party transactions" is disclosed in Notes 7 and 31 to these consolidated financial statements.

- b) Related party balances included in the balance sheet are as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Advances to customers	1,404,911	854,140
Deposits from customers	1,958,554	931,563
Letters of credit, guarantees and acceptances	2,053,701	2,169,951
Available for sale investments	84,750	101,000
Investments revaluation reserves in equity	(16,250)	-

- c) Net income for the year includes related party transactions as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
Interest income	115,571	65,008
Interest expense	43,213	29,097
Other income	112,567	52,434

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

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

Geographic regions

	December 31, 2008			December 31, 2007		
	Assets	Liabilities and Equity	Off Balance Sheet items	Assets	Liabilities and Equity	Off Balance Sheet items
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
UAE	69,386,824	79,337,201	36,242,191	60,329,702	70,817,322	30,861,253
Other Middle East Countries	12,221,116	6,259,459	2,304,797	12,682,229	7,878,676	1,737,246
O.E.C.D.	4,707,326	6,439,318	5,508,881	5,897,036	6,895,237	3,379,336
Others	6,928,255	1,207,543	2,830,774	8,718,430	2,036,162	2,186,092
	93,243,521	93,243,521	46,886,643	87,627,397	87,627,397	38,163,927

Industry Sector

	December 31, 2008			December 31, 2007		
	Assets	Liabilities and Equity	Off Balance Sheet items	Assets	Liabilities and Equity	Off Balance Sheet items
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Government and Public Sector	11,473,467	9,274,010	66,940	8,941,234	8,686,841	121,853
Commercial & Business	34,261,439	30,691,740	33,186,412	22,020,799	21,886,896	33,647,659
Personal	12,317,720	12,306,124	21,159	8,972,076	13,774,971	21,180
Financial Institutions	26,026,025	25,376,803	13,612,069	40,024,733	28,734,911	4,266,701
Others	9,164,870	4,912,445	63	7,668,555	4,059,380	106,534
Equity	--	10,682,399	--	--	10,484,398	--
	93,243,521	93,243,521	46,886,643	87,627,397	87,627,397	38,163,927

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

38. Segmental information

	2008							
	Retail	Corporate	Financial Institutions	Islamic Banking	Treasury & Capital Markets	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	1,026,887	687,462	80,394	53,070	4,343	17,138	214,481	2,083,775
Other income	490,478	526,931	176,828	48,327	116,171	621,496	(80,068)	1,900,163
Total operating income	1,517,365	1,214,393	257,222	101,397	120,514	638,634	134,413	3,983,938
General and administrative expenses								(1,873,962)
Allowances for loans and advances and other financial assets								(362,362)
Income before taxes and minority interest								1,747,614
Taxation								(15,545)
Net income for the year								1,732,069
Attributed to:								
Equity holders of the parent								1,642,830
Minority interest								89,239
								1,732,069
Segment Assets	12,109,791	36,245,019	6,660,729	6,892,383	17,037,300	3,764,204	10,534,095	93,243,521
Segment Liabilities	10,070,100	36,659,400	2,925,000	6,416,494	10,564,800	2,360,016	13,565,312	82,561,122
	2007							
	Retail	Corporate	Financial Institutions	Islamic Banking	Treasury & Capital Markets	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	796,277	620,484	83,824	37,190	(562,285)	17,971	206,997	1,200,458
Other income	421,674	508,622	129,534	3,349	762,404	738,764	85,681	2,650,028
Total operating income	1,217,951	1,129,106	213,358	40,539	200,119	756,735	292,678	3,850,486
General and administrative expenses								(1,409,787)
Allowances for loans and advances and other financial assets								(308,385)
Income before taxes and minority interest								2,132,314
Taxation								(6,319)
Net income for the year								2,125,995
Attributed to:								
Equity holders of the parent								1,900,632
Minority interest								225,363
								2,125,995
Segment Assets	8,962,632	26,049,346	8,254,899	2,700,200	31,363,300	3,767,182	6,529,838	87,627,397
Segment Liabilities	9,872,700	38,634,121	4,131,800	2,159,127	7,920,400	1,644,512	12,780,339	77,142,999

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

39. Classification of financial assets and liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2008:

	At fair value through profit & loss	Available- for-sale	Loans and advances	Held to maturity	Other amortised cost	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with central banks	-	-	-	-	6,289,386	6,289,386
Deposits and balances due from banks	-	-	-	-	9,077,630	9,077,630
Financial assets carried at FVTPL	219,776	-	-	-	-	219,776
Loans and advances (net)	-	-	48,434,274	-	-	48,434,274
Islamic financing and investment products	-	-	6,600,704	-	-	6,600,704
Non-trading investments	-	3,840,505	-	9,348,553	-	13,189,058
Interest receivable and other assets	2,710,007	-	-	-	5,412,808	8,122,815
	2,929,783	3,840,505	55,034,978	9,348,553	20,779,824	91,933,643
Deposits and balances due to banks	-	-	-	-	12,336,491	12,336,491
Repurchase agreements with banks	-	-	-	-	5,129,883	5,129,883
Customers' deposits	-	-	-	-	48,435,538	48,435,538
Islamic customers' deposits	-	-	-	-	3,042,027	3,042,027
Insurance and life assurance funds	-	-	-	-	802,485	802,485
Interest payable and other liabilities	2,930,729	-	-	-	3,743,180	6,673,909
Medium-term floating rate notes	-	-	-	-	5,234,025	5,234,025
Long-term loans	-	-	-	-	11,838	11,838
	2,930,729	-	-	-	78,735,467	81,666,196

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at December 31, 2007:

	At fair value through profit & loss	Available- for-sale	Loans and advances	Held to maturity	Other amortised cost	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with central banks	-	-	-	-	20,200,123	20,200,123
Deposits and balances due from banks	-	-	-	-	10,974,141	10,974,141
Financial assets carried at FVTPL	10,023,141	-	-	-	-	10,023,141
Loans and advances (net)	-	-	32,980,680	-	-	32,980,680
Islamic financing and investment products	-	-	2,345,269	-	-	2,345,269
Non-trading investments	-	4,553,949	-	195,069	-	4,749,018
Interest receivable and other assets	2,433,377	-	-	-	2,939,445	5,372,822
	12,456,518	4,553,949	35,325,949	195,069	34,113,709	86,645,194
Deposits and balances due to banks	-	-	-	-	13,397,024	13,397,024
Repurchase agreements with banks	-	-	-	-	3,834,313	3,834,313
Customers' deposits	-	-	-	-	46,133,514	46,133,514
Islamic customers' deposits	-	-	-	-	2,153,198	2,153,198
Insurance and life assurance funds	-	-	-	-	516,895	516,895
Interest payable and other liabilities	2,482,251	-	-	-	2,754,841	5,237,092
Medium-term floating rate notes	-	-	-	-	5,234,025	5,234,025
Long-term loans	-	-	-	-	16,707	16,707
	2,482,251	-	-	-	74,040,517	76,522,768

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

40. Derivatives

In the ordinary course of business, the Group utilizes the following derivative financial instruments for both trading and hedging purposes:

Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardized amounts on regulated exchanges and changes in futures contract values are marked to market daily.

Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

Derivatives held for hedging purposes

The Group deals in derivatives including forward exchange contracts, swaps, options and futures on behalf of its customers. These dealings with and exposure to financial markets are matched by equal and opposite dealings and exposure to corporate customers.

The Group uses forward foreign exchange contracts and currency swaps to hedge against currency risks and interest rate swaps to hedge against the interest rate risk arising from interest rate exposures. In all such cases, the hedging relationship and objective, including details of the hedged items and hedging instrument are formally documented.

The following table shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amounts, which provide an indication of the volumes of the transactions outstanding at the year end, do not necessarily reflect the amounts of future cash flows involved. These notional amounts, therefore, are neither indicative of the Group's exposure to credit risk, which is generally limited to the positive fair value of the derivatives, nor market risk.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

40. Derivatives (continued)

Statement of Derivatives as at December 31, 2008

Off-Balance Sheet Financial Instruments	Notional amount by term of maturity							
	Positive	Negative	Notional	Up to	3 - 6	6 - 12	1 year	Over
	fair value	fair value	amount	3 months	months	months	to 5 years	5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for Trading								
Forward foreign exchange contract	922,961	918,985	48,093,534	23,596,051	11,541,882	9,050,102	3,905,499	-
Foreign exchange options (bought)	-	1,033,694	26,644,695	5,647,203	6,826,833	13,692,698	477,961	-
Foreign exchange options (sold)	902,063	-	38,379,114	17,381,622	6,826,833	13,692,698	477,961	-
Interest rate swaps	830,665	934,970	18,491,898	409,485	25,438	661,619	13,571,756	3,823,600
Cap bought	-	1	62,700	-	-	-	62,700	-
Cap sold	1	-	62,700	-	-	-	62,700	-
Credit default swaps	10,322	8,703	230,884	-	-	18,365	212,519	-
Equity derivatives	17,880	8,261	184,875	13,100	1,095	17,884	152,796	-
Futures contracts purchased (Customer)	-	14,711	79,534	79,534	-	-	-	-
Futures contracts sold (Customer)	11,404	-	217,179	126,937	-	90,242	-	-
Futures contracts sold (Bank)	14,711	-	79,534	79,534	-	-	-	-
Futures contracts purchased (Bank)	-	11,404	217,179	126,937	-	90,242	-	-
	2,710,007	2,930,729	132,743,826	47,460,403	25,222,081	37,313,850	18,923,892	3,823,600

Statement of Derivatives as at December 31, 2007

Off-Balance Sheet Financial Instruments	Notional amount by term of maturity							
	Positive	Negative	Notional	Up to	3 - 6	6 - 12	1 year	Over
	fair value	fair value	amount	3 months	months	months	to 5 years	5 years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for Trading								
Forward foreign exchange contract	283,859	269,906	48,562,465	40,835,150	2,200,364	1,009,218	4,517,733	-
Foreign exchange options (bought)	-	1,850,006	76,909,969	14,870,003	26,385,950	27,938,340	7,359,438	356,238
Foreign exchange options (sold)	1,850,005	-	76,909,969	14,870,003	26,385,950	27,938,340	7,359,438	356,238
Interest rate swaps	293,647	348,206	9,690,241	19,274	3,673	199,785	7,608,476	1,859,033
Cap bought	-	4	104,500	-	-	-	104,500	-
Cap sold	4	-	104,500	-	-	-	104,500	-
Credit default swaps	935	3,547	144,782	-	-	-	122,727	22,055
Equity derivatives	-	5,655	15,570	-	-	-	15,570	-
Futures contracts purchased (Customer)	-	1,640	236,734	154,261	-	65,703	16,770	-
Futures contracts sold (Customer)	3,287	-	77,075	77,075	-	-	-	-
Futures contracts sold (Bank)	1,640	-	236,734	154,261	-	65,703	16,770	-
Futures contracts purchased (Bank)	-	3,287	77,075	77,075	-	-	-	-
	2,433,377	2,482,251	213,069,614	71,057,102	54,975,937	57,217,089	27,225,922	2,593,564

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

41. Capital management

Regulatory capital

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The parent company and overseas banking operations are directly supervised by their local regulators.

The Central Bank of the UAE adopted Basel One capital regime in 1993. The Bank calculates its Capital Adequacy Ratio in line with guidelines issued by the Central Bank of the UAE. The minimum capital ratio prescribed by the Central Bank is 10% of RWA calculated as per the guidelines issued by them.

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

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

Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. The Central Bank of the UAE does not permit collective impairment allowances to be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items. The Tier One Capital must be 6% of RWA and Tier 2 Capital cannot be more than 66.6% of Tier One Capital.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group issued in the year ended December 31, 2007 LT-2 bonds which have been approved by the UAE Central bank to be treated as Tier 2 Capital.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

41. Capital management (continued)

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

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

The Group's regulatory capital position at December 31, 2008 was as follows:

	December 31,	
	2008	2007
	AED '000	AED '000
<i>Tier 1 capital</i>		
Ordinary share capital	1,463,870	1,126,054
Statutory & Legal Reserve	740,734	599,009
General Reserve	312,000	312,000
Retained earnings	8,231,655	7,068,366
Minority interest	734,203	721,025
Cumulative translation adjustment	(33,932)	(2,155)
Total	11,448,530	9,824,299
<i>Tier 2 capital</i>		
Asset revaluation reserve	(766,131)	297,045
Qualifying subordinated liabilities	1,836,500	1,836,500
Total	1,070,369	2,133,545
Total capital base	12,518,899	11,957,844
<i>Risk-weighted assets</i>		
On balance sheet	65,610,336	47,683,537
Off balance sheet	23,301,533	19,661,810
Total risk-weighted assets	88,911,869	67,345,347
Risk asset ratio	14.08%	17.76%

The Central Bank of the UAE has proposed to adopt Basel 2; however, no date has been fixed for implementation. For credit and market risk the Central Bank has issued draft guidelines for the implementation of the Standardised Approach. For operational risk the Central Bank has given the option to use the Basic Indicator Approach or the Standardised Approach. Until Basel 2 implementation date is fixed and relevant guidelines are issued, banks are required to follow Basel I guidelines issued by the Central Bank.

Capital allocation

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

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management

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

- Credit Risk Management
- Market Risk Management
- Liquidity Risk Management

The Risk Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the Board of Directors to set up risk limits and manage the overall risk in the Group. These committees approve risk management policies of the Group developed by the Risk Management Group.

The Risk Committee has overall responsibility for the oversight of the risk management frame work. It has established detailed policies and procedures in this regard along with senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Group. In addition to setting the credit policies of the Group, the Risk Committee also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

The Risk Management Group function is independent of the business and is led by a qualified Risk Management Head, with enterprise-wide responsibility for the function. This Group is responsible for developing credit, market and operational risk policies. Subjective experienced and trained Risk Managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

The Portfolio Management and Risk Analytic Unit within Risk Management Group is responsible for developing and validating or revalidating financial risk models for risk ratings and scoring models, as well as the calculation of Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure At Default ("EAD"). During the year ended December 31, 2008, the Unit developed new scoring models for project finance, commercial real estate, personal and auto loans, and updated the existing rating model for financial institutions.

Management considers that the portfolio quality remains stable and strong. The Group has a progressive risk rating system in place, and a conservative policy for early recognition of impairment and for providing for non-performing assets. As part of its analysis of portfolio pressure points, the Group carries out periodic stress testing to its entire portfolio and takes appropriate action to (i) mitigate risks arising out of specific industries and/or due to global risk events and their implications on the Group's client base, and (ii) determine portfolio direction and resource allocation accordingly.

The Risk Management Group of the Group overseas credit, market and operational risks. Different credit underwriting procedures are followed for commercial and institutional lending, and retail lending, as described below.

The Audit, Review and Compliance Group ("ARCG") is an independent Group which is responsible to review the risk policies, risk exposures and the risk managing and monitoring framework. The Board Audit Committee is assisted by ARCG in this regard.

Credit Risk Management

Credit risk is the potential for financial loss arising from a borrower's or counterparty's inability to meet its obligations.

All credit policies are reviewed and approved by the Group's Risk Committee.

Whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by geography and industry sectors.

Wholesale credit risk management

The Wholesale Risk Management team centrally approves all credit facilities and limits for all corporate, treasury and capital markets, financial institutions and SME clients of the Group. Such approvals are carried out in accordance with the Group's credit policy as set out in the Wholesale Credit Policy Manual. Periodic policy revisions and updates are posted as Policy Bulletins.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

All credit lines or facilities extended by the Group are granted subject to prior approval pursuant to a set of delegated credit authority limits as recommended by the Risk Management Head inline with the Wholesale Credit Policy, and approved by the Group's Chief Executive Officer (the "CEO"). At least two signatures are required to approve any credit application. Depending on factors such as the nature of the applicant, magnitude of credit, its risk rating, the client type or a specific policy issue, a third concurring signature may sometimes be required, as defined in the Credit Policy Manual.

All credit applications for commercial and institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where specialized industry knowledge is required.

Limit setting is based on a combination of factors, including a detailed evaluation of each borrower's creditworthiness based on proven performance, industry, management and financial analysis (both historical and projected), risk rating, and analysis of facilities (tenor & types of facilities, pricing, collateral and support).

Credit and Marketing functions are segregated. Furthermore, all credit facilities are independently administered and monitored by the Credit Operations (Administration) Department, which separately reports into Operations & Technology Group.

The Group has established cross border country limits for managing transferability and convertibility cross border risks. These limits are regularly reviewed by the Risk Management Group and periodically by the Risk Committee. Individual country limits are set out based on policy terms defining acceptable country credit risk tolerance norms. Such cross border exposure and financial institutions exposure limits for money market and treasury activities are likewise approved as per guidelines set out by the Group's Wholesale Credit Policy Manual and are monitored by the Credit Operations Department.

Periodic reviews are also conducted by the Credit Examination teams from the Audit, Review and Compliance Group and facilities are risk graded based on criterion established in the Credit Policy Manual.

Retail credit risk management

Retail credit risk is managed on a product basis. Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Group's Risk Committee. The evaluation of a borrower's creditworthiness is determined on the basis of statistically validated scoring models.

All approval authorities are delegated by the Risk Committee or by the Chief Executive Officer (the "CEO") acting on behalf of the Risk Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans and credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where the Risk Committee approval of the specific credit application is necessary).

Credit review procedures

The Group's Credit Review Division (the "CRD") which is part of Audit, Review and Compliance Group, subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The CRD validates the risk ratings of all commercial and institutional clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Loan Classification

All commercial and institutional loan facilities of the Group are assigned one of twenty five risk ratings. Non-classified obligors are those rated from 1 to 22. Obligor at the higher risk end rated 21 and 22 are categorized as "Watch-List". Classified exposures fall into 4 categories representing escalating degrees of severity. Assets rated 23 and 24 are categorized as "Specially Mentioned" and 25 are categorized as "Substandard". Doubtful and Loss rated credits are maintained in separate categories, outside the risk rating system. Split classifications may be used when a facility is partially collateralized, where the Loss Given Default ("LGD") would be different for the collateralized portion of the credit. The Group's internal rating system, which has been developed using historical loss data and customer behavioral scores, is also continually updated and strengthened in order to provide a statistically validated underpinning to customer ratings consistent with Basel II IRB guidelines.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to consolidated income statement. Once a loan is designated as non-accrual, all previously accrued but uncollected interest is reversed and charged against interest income. Interest accruals are no longer recorded as income, and the amortization into income of deferred loan fees ceases. Collections subsequent to a loan being placed on non-accrual status are applied on a cash basis. Specific allowance for impairment of classified assets is made based on recoverability of exposure and the risk ratings of the assets.

The Group writes off retail advances once they are between 150 to 180 days past their due date, based on the characteristics of the underlying product.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and securities agreements. These loans are graded Doubtful or Loss in the Group's internal credit risk grading system for wholesale credits.

Past due but not impaired loans and securities

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

Allowances for impairment

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

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

Write-off policy

The Group writes off a loan or security (and any related allowances for impairment losses) when the Group Credit Department determines that the loans or securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that the borrower or issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status. Write-offs are only generally allowed after 3 years from the date of which the asset has been classified as "Loss" or has been charged off.

All retail loans, with the exception of personal loans to UAE nationals, are charged off when installments are past due over 150 days. Personal loans to UAE nationals are charged off if installments are past due by 180 days or more.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	Due from banks		Loans and advances		Non trading investments	
	2008	2007	2008	2007	2008	2007
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired						
Substandard	-	-	-	10,688	-	-
Doubtful	-	-	34,171	59,448	-	-
Loss	-	-	134,629	313,001	-	-
Gross amount	-	-	168,800	383,137	-	-
Interest suspended	-	-	(76,228)	(97,779)	-	-
Specific allowance for impairment	-	-	(279,801)	(338,753)	-	-
	-	-	(187,229)	(53,395)	-	-
Past due but not impaired						
Commercial loans by less than 90 days	-	-	330,157	61,770	-	-
Commercial loans beyond 90 days	-	-	195,370	-	-	-
Past due retail loans beyond 30 days over	-	-	627,100	315,567	-	-
	-	-	1,152,627	377,337	-	-
Neither past due nor impaired						
Gross amount	9,077,630	10,974,141	48,231,656	33,310,761	13,190,948	4,750,908
Collective allowance for impairment	-	-	(762,780)	(654,023)	(1,890)	(1,890)
	9,077,630	10,974,141	47,468,876	32,656,738	13,189,058	4,749,018
Carrying amount	9,077,630	10,974,141	48,434,274	32,980,680	13,189,058	4,749,018

The above allowance for impairment includes allowance for off balance sheet items.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired as at December 31, 2008 can be assessed by reference to the Group's standard credit grading system. The following information is based on the system:

	December 31,	
	2008	2007
	AED '000	AED '000
Grade 1 – Low risk	18,813,766	9,784,351
Grade 2 – Satisfactory Risk	22,885,499	18,981,169
Grade 3 – Fair Risk	4,788,117	3,270,493
Grade 4 – Watch List	1,563,547	1,123,574
Grade 5 – Substandard but not impaired	180,727	151,174
	48,231,656	33,310,761

Collateral against loans and advances to customers is generally held in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2008 neither 2007.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

The table below details the fair value of the collateral as at the date of granting the loan except for the fair value of debt and equity securities collaterals which are updated regularly for fair value and at the balance sheet date:

	Loans and advances to customers		Due from banks	
	2008	2007	2008	2007
	AED'000	AED'000	AED'000	AED'000
Against individually impaired advances:				
Property	410,800	57,180	-	-
Debt securities	-	-	-	-
Equities	-	-	-	-
Cash	9,148	45,876	-	-
Others	-	38,862	-	-
Against loans and advances not impaired:				
Property	7,367,288	8,564,999	-	-
Debt securities	-	45,472	-	-
Equities	2,937,610	2,781,675	-	-
Cash	2,626,560	2,646,642	268,076	1,314,523
Others	2,006,453	2,815,409	-	-
	15,357,859	16,996,115	268,076	1,314,523

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

2008	UAE	Middle East countries	O.E.C.D	Other countries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired loans and advances	91,357	56,190	-	21,253	168,800
Impairment allowance for credit losses	246,177	90,385	-	19,467	356,029
2007	UAE	Middle East countries	O.E.C.D	Other countries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired loans and advances	291,580	69,629	-	21,928	383,137
Impairment allowance for credit losses	348,209	68,758	-	19,565	436,532

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Market Risk Management

Market risk arises from the possibility of losses resulting from unfavorable market movements. Market Risk Management is an independent group that oversees market risk. The primary objectives of Market Risk Management are to:

- Define and implement policies and procedures regarding market risk
- Develop a comprehensive market risk limit setting and monitoring capability
- Perform the necessary market risk analysis
- Develop robust stress testing analysis
- Ensure compliance with market risk management regulatory requirements

Market risk is monitored by translating senior management's risk appetite into proper limits. Proprietary trading for the account of the Group is managed by limits set by the ALCO and/or Investment Committee. The Group classifies exposures to market risk into two distinct measures:

- a) Trading Risk, and
- b) Asset Liability Mismatch (ALM) Risk

Trading risk is the risk of loss on liquid, trading positions due to adverse market price changes.

The Group Market Risk Management uses a wide array of custom techniques, including exposure measures, factor sensitivities, Value-at-Risk (VaR) and Stress Scenarios (What-if-Analysis) to analyze portfolios.

The Group uses VaR as a general statistical measure of risk that is used to equate risk across products and aggregate risk on a portfolio basis, from the corporate level down to the individual trading desk. VaR is intended to estimate the potential decline in the value of a position or a portfolio, under normal market conditions, within a defined confidence level (99% in line with Basel), and over a specific time period. The Group uses the Monte Carlo approach, and simulate a large number of asset distributions and re-order the outcomes to determine the percentile VaRs. The Group uses Risk Metrics product to calculate VaR.

In 2008, VaR was calculated daily and as of December 31, 2008 the 99% VaR was US\$ 4.540 million (2007: US\$ 3.412 million).

Asset Liability Mismatch ("ALM") risks is the structural mismatch risk between liquid assets and liabilities on the banking book.

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

Interest Rate Risk Management

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

The Group uses simulation-modeling tools to measure and monitor interest rate sensitivity. The results are analyzed and monitored by Assets and Liabilities Committee ("ALCO"). Since most of the Group's assets and liabilities are floating rate, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on net income over a 12 months period as on December 31, 2008 would have been a decrease in net income by 0.03% (in case of decrease of interest rate) and would have been an increase in net income by 0.32% (in case of increase of interest rate) [2007: -1.10% and +0.72%] respectively.

The effective interest rate on bank placements and certificates of deposits with central bank was 3.28% (2007: 5.33%), on loans and advances 6.26% (2007: 7.96%), on customer deposits 2.53% (2007: 4.07%) and on bank borrowings 3.59% (2007: 5.12%).

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Interest Rate Sensitivity Gap:

	<u>Within 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Non-interest sensitive</u>	<u>Total</u>
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets							
Cash and balances with central banks	3,145,289	-	-	-	-	3,144,097	6,289,386
Deposits and balances due from banks	3,603,485	760,557	4,194,258	436,397	58,900	24,033	9,077,630
Financial assets carried at FVTPL	75,161	-	-	-	-	144,615	219,776
Loans and advances (net)	12,069,505	4,167,906	18,898,530	11,599,493	1,096,636	602,204	48,434,274
Islamic financing and investment products	2,805,351	263,238	765,345	2,494,290	272,480	-	6,600,704
Non-trading investments	2,128	179,116	902,727	5,449,312	1,337,513	5,318,262	13,189,058
Interest receivable and other assets	-	-	-	-	-	8,231,536	8,231,536
Investment properties	-	-	-	-	-	724,237	724,237
Property and equipment	-	-	-	-	-	476,920	476,920
Total assets	21,700,919	5,370,817	24,760,860	19,979,492	2,765,529	18,665,904	93,243,521
Liabilities and equity							
Deposits and balances due to banks	9,926,588	1,423,341	33,057	-	-	953,505	12,336,491
Repurchase agreements with banks	5,129,883	-	-	-	-	-	5,129,883
Customers' deposits	27,829,515	1,751,688	3,017,962	3,995,773	140,215	11,700,385	48,435,538
Islamic customers' deposits	2,181,243	524,552	68,413	122,649	-	145,170	3,042,027
Insurance and life assurance funds	-	-	-	-	-	802,485	802,485
Interest payable and other liabilities	-	-	-	-	-	7,568,835	7,568,835
Medium-term floating rate notes	5,234,025	-	-	-	-	-	5,234,025
Long-term loans	-	-	-	-	-	11,838	11,838
Minority interest	-	-	-	-	-	617,706	617,706
Equity attributable to equity holders of the parent	-	-	-	-	-	10,064,693	10,064,693
Total liabilities and equity	50,301,254	3,699,581	3,119,432	4,118,422	140,215	31,864,617	93,243,521
On Balance Sheet gap	(28,600,335)	1,671,236	21,641,428	15,861,070	2,625,314	(13,198,713)	-
Off Balance Sheet gap	(82,797)	24,793	53,963	4,041	-	-	-
Cumulative interest rate sensitivity gap - 2008	(28,683,132)	(26,987,103)	(5,291,712)	10,573,399	13,198,713	-	-
Cumulative interest rate sensitivity gap - 2007	(15,651,593)	(11,633,572)	2,264,484	12,841,501	13,234,979	-	-

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Currency Risk Management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored. The Group's exposures on December 31, 2008 are:

	Net spot position	Forward position	Total 2008	Total 2007
	AED'000	AED'000	AED'000	AED'000
U.S. Dollars	15,033,987	(2,806,154)	12,227,833	10,395,325
Qatari Riyals	473,864	202	474,066	(31,422)
Indian Rupees	(66,545)	52,188	(14,357)	72,964
Pound Sterling	(472,544)	519,365	46,821	33,802
Hong Kong Dollar	(2,331)	(367)	(2,698)	243
Egyptian Pound	(859)	-	(859)	18,639
Euro	(121,512)	(34,846)	(156,358)	(9,986)
Bahrain Dinar	50,579	(489)	50,090	47,791
Saudi Riyal	2,658	187	2,845	(3,910)
Japanese Yen	356	13,537	13,893	3,809
Swiss Francs	72,907	(71,425)	1,482	587
Pakistani Rupees	17,576	-	17,576	22,267
Others	(77,999)	85,054	7,055	11,583
	14,910,137	(2,242,748)	12,667,389	10,561,692

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

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Liquidity Risk Management

Liquidity Risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due. This is a key franchise risk.

Management of liquidity risk

The Group's senior management's focus on liquidity management is to:

- Understand better the various sources of liquidity risk, particularly under stressed conditions.
- Develop effective contingency plans.
- Develop a comprehensive approach to management of liquidity risk to ensure that it is line with the Group's overall risk appetite.
- Improve resilience to a sharp decline in market liquidity and to demonstrate that we can survive the closure of one or more funding markets by ensuring that finance can be readily raised from a variety of sources.

Assets and Liabilities Committee ("ALCO") has a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Group's operation on the basis of such review.

The members of ALCO are the Chief Executive Officer, the Head of Corporate & Investment Banking Group, the Head of Retail Banking, the Head of Treasury & Capital Markets, the Head of Risk Management Group and the Chief Financial Officer of the Group.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash managed products and retail savings' schemes which have enabled it to mobilize low cost, broad base deposits. In order to diversify the funding sources, the EMTN program was launched in 2004 under which it has till date raised AED 5.3 Billion in medium-term borrowings. During the year ended December 31, 2007, the Group raised AED 1.8 Billion for 5 years through a syndicated borrowing arrangement.

To measure and monitor its liquidity, the Group uses various indicators including regulatory ratio of utilization of funds to stable resources. Other indicators include Advances to Deposits and Stable Funds Ratio, liquid assets to Deposits ratio and Liquid assets to adjusted assets ratio. The Treasury function in the Group is responsible to manage the liquidity and it follows strict guidelines for deployment of liquid assets within each liquidity bucket. Periodic stress tests are performed to ensure the availability of funds during stressed situations.

Inter-bank borrowing lines and repo facilities with global banks are part of the contingency funding options maintained by the Treasury.

The following table summarizes the maturity profile of Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Maturity Profile:

The maturity profile of assets and liabilities as at December 31, 2008 were as follows:

	<u>Within 3 months</u>	<u>Over 3 to 6 months</u>	<u>Over 6 to 12 months</u>	<u>Over 1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with central banks	6,289,386	-	-	-	-	6,289,386
Deposits and balances due from banks	4,406,708	1,346,607	1,505,456	1,759,968	58,891	9,077,630
Financial assets carried at FVTPL	219,776	-	-	-	-	219,776
Loans and advances (net)	17,053,920	7,628,636	4,063,443	16,461,828	3,226,447	48,434,274
Islamic financing and investment products	2,915,658	263,120	655,155	2,494,290	272,481	6,600,704
Non-trading investments	347,291	86,235	3,487,658	6,324,923	2,942,951	13,189,058
Interest receivable and other assets	5,759,233	2,356,539	52,962	61,628	1,174	8,231,536
Investment properties	-	-	-	-	724,237	724,237
Property and equipment	849	123	246	9,379	466,323	476,920
Total assets	36,992,821	11,681,260	9,764,920	27,112,016	7,692,504	93,243,521
Liabilities and equity						
Deposits and balances due to banks	9,043,594	1,423,341	33,056	1,836,500	-	12,336,491
Repurchase agreements with banks	2,408,233	2,538,000	-	183,650	-	5,129,883
Customers' deposits	39,315,136	1,836,182	3,128,483	4,014,011	141,726	48,435,538
Islamic customers' deposits	2,317,593	524,552	68,413	122,649	8,820	3,042,027
Insurance and life assurance funds	-	-	802,485	-	-	802,485
Interest payable and other liabilities	5,376,568	1,610,635	387,320	131,433	62,879	7,568,835
Medium-term floating rate notes	1,101,900	-	-	2,295,625	1,836,500	5,234,025
Long-term loans	-	-	-	-	11,838	11,838
Minority interest	-	-	-	-	617,706	617,706
Equity attributable to equity holders of the parent	-	-	-	-	10,064,693	10,064,693
Total liabilities and equity	59,563,024	7,932,710	4,419,757	8,583,868	12,744,162	93,243,521
Maturity profile as at December 31, 2007:						
Total assets	46,156,867	12,223,323	7,836,378	15,938,826	5,472,003	87,627,397
Total liabilities and equity	57,019,955	8,184,951	2,897,867	6,254,982	13,269,642	87,627,397

Notes to the Consolidated Financial Statements (continued)
For the Year ended December 31, 2008

42. Risk management (continued)

Fair value of financial instruments

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

The Group measures all financial assets and liabilities at amortized cost except for derivatives and trading and non-trading investments which are measured at fair value by reference to either published price quotations in an active market, prices quoted by counterparties or through use of valuation techniques such as discounted cash flow method.

The fair values of deposits and balances due from banks, deposits and balances due to banks, repurchase agreements with banks and customers' deposits, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their book value.

The Group estimates that the fair value of its loans and advances portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans and advances which are considered impaired, expected cash flow, including anticipated realization of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

43. Fiduciary activities

Assets held by the Group in trust, in a fiduciary and custodial capacity on behalf of its customers, are not included in these consolidated financial statements. These include assets held in a fiduciary capacity for a related party as of December 31, 2008 of AED 784.614 million (2007: AED 546.29 million).

44. Fund management

Makaseb Funds Company BSC (subsidiary – Note 1) manages a number of equity funds which are not consolidated in these consolidated financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds.

45. Comparative figures

Certain amounts for the prior year were reclassified to conform to current year presentation.