DUBAI ISLAMIC BANK P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Dubai Islamic Bank P.J.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated balance sheet as at 31 December 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 as set out in pages 3 to 80.

The consolidated financial statements for the year ended 31 December 2007 were audited by other auditors whose report dated 30 January 2008 expressed an unqualified opinion on those statements.

Management's responsibility for the consolidated financial statements

Management of the Bank 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 Bank'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 Bank'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.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

The accompanying consolidated financial statements have been prepared for submission to the Central Bank of United Arab Emirates and are yet to be approved by the Central Bank. These consolidated financial statements should not be published until such approval is obtained.

Saba Y. Sindaha
Registration Number 410
25 February 2009

CONSOLIDATED BALANCE SHEET
as at 31 December 2008

	Notes	2008 AED'000	2007 AED'000 (Restated)
ASSETS			
Cash and balances with Central Banks	6	**6,328,666**	4,905,657
Balances and deposits with banks and other financial institutions	7	**1,840,978**	1,195,720
International murabahat with financial institutions, short term	8	**1,640,601**	16,279,701
Islamic financing and investing assets	9	**52,659,011**	40,534,848
Investments in Islamic sukuk	10	**11,226,276**	8,511,759
Investments in associates	11	**4,456,044**	3,741,596
Other investments	12	**2,107,936**	4,082,682
Properties under construction	13	**257,830**	-
Properties held for sale	14	**168,251**	131,831
Investment properties	15	**2,005,039**	2,034,898
Receivables and other assets	16	**1,671,728**	2,273,642
Property, plant and equipment	17	**668,753**	630,667
Goodwill	18	**-**	36,910
Total assets		**85,031,113**	84,359,911
LIABILITIES			
Customers' deposits	22	**66,427,210**	65,175,594
Due to banks and other financial institutions	23	**3,331,101**	2,241,322
Sukuk financing instruments	24	**2,754,750**	2,754,750
Other liabilities	25	**3,449,532**	3,393,586
Accrued zakat	27	**143,166**	129,542
Total liabilities		**76,105,759**	73,694,794
EQUITY			
Share capital	28	**3,445,400**	2,996,000
Statutory reserve	30	**2,731,879**	2,756,737
Donated land reserve	30	**276,139**	276,139
General reserve	30	**2,250,000**	1,650,000
Exchange translation reserve	30	**(59,680)**	27,340
Proposed dividends	32	**1,032,628**	1,647,800
Cumulative changes in fair value	31	**(888,714)**	1,006,637
Hedging reserve	35	**111,411**	-
Share based payments		**(3,307)**	-
Retained earnings		**29,478**	53,654
Equity attributable to equity holders of the parent		**8,925,234**	10,414,307
Minority interest	33	**120**	250,810
Total equity		**8,925,354**	10,665,117
Total liabilities and equity		**85,031,113**	84,359,911
Contingent liabilities and commitments	34	**44,642,611**	27,974,861

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors dated 25 February 2009.

H. E. Mohammad A. Al Shaibani	Sheikh Khalid Bin Zayed Al Nehyan	Abdulla Ali Al Hamli
Chairman	*Deputy Chairman*	*Cheif Executive Officer*

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

	Notes	2008 AED'000	2007 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	36	**3,204,840**	2,724,999
Income from Islamic sukuk		**551,101**	513,213
Income from international murabahat, short term	37	**266,208**	642,468
Share of profits of associates	11	**401,034**	203,462
(Loss)/income from other investments	38	**(61,295)**	700,917
Commissions, fees and foreign exchange income	39	**872,127**	798,327
Income from investment properties	40	**180,401**	231,824
Income from sale of properties	41	**31,718**	141,331
Other income	42	**98,723**	126,868
Total Income		**5,544,857**	6,083,409
EXPENSES			
Personnel expenses	43	**(882,497)**	(866,502)
General and administrative expenses	44	**(517,045)**	(610,832)
Net impairment loss on financial assets	45	**(520,830)**	(301,468)
Depreciation of investment properties	15	**(20,125)**	(28,029)
Total Operating Expenses		**(1,940,497)**	(1,806,831)
Profit before depositors' share, tax and gain on transfer of interest in subsidiary		**3,604,360**	4,276,578
Depositors' share of profits	46	**(1,876,205)**	(2,395,074)
Profit before tax and gain on transfer of interest in subsidiary		**1,728,155**	1,881,504
Income tax	26	**2,135**	14,148
Profit before gain on transfer of interest in subsidiary		**1,730,290**	1,895,652
Gain on transfer of interest in subsidiary	21	**-**	968,964
Depositors' share of gain on transfer of interest in subsidiary	46	**-**	(351,795)
Net gain on transfer of interest in subsidiary		**-**	617,169
Net profit for the year		**1,730,290**	2,512,821
Attributable to:			
Equity holders of the parent		**1,730,290**	2,500,421
Minority interest		**-**	12,400
		1,730,290	2,512,821
Basic and diluted earning per share attributable to the equity holders of the parent	47	**AED 0.50**	AED 0.72

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008

	Share capital AED'000	Total reserves AED'000	Proposed dividends AED'000	Cumulative changes in fair value AED'000	Hedging reserve AED'000	Share based payments AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interests AED'000	Total equity AED'000
Balance at 1 January 2008 - restated	2,996,000	4,710,216	1,647,800	1,006,637	-	-	53,654	10,414,307	250,810	10,665,117
Net profit for the year	-	-	-	-	-	-	1,730,290	1,730,290	-	1,730,290
Share based payments granted	-	-	-	-	-	(3,307)	-	(3,307)	-	(3,307)
Issuance of shares	449,400	-	(449,400)	-	-	-	-	-	-	-
Dividends paid	-	-	(1,198,400)	-	-	-	-	(1,198,400)	-	(1,198,400)
Share based payments vested	-	-	-	-	-	-	18,069	18,069	-	18,069
Fair value gain on cash flow hedges	-	-	-	-	111,411	-	-	111,411	-	111,411
Net unrealised loss on available for sale investments	-	-	-	(1,836,761)	-	-	-	(1,836,761)	-	(1,836,761)
Released on disposal of available for sale investments	-	-	-	(58,590)	-	-	-	(58,590)	-	(58,590)
Exchange difference arising on translation of foreign operations	-	(87,020)	-	-	-	-	-	(87,020)	-	(87,020)
Movement as a result of subsidiaries disposed	-	(24,858)	-	-	-	-	-	(24,858)	(250,690)	(275,548)
Transfer from retained earning	-	600,000	-	-	-	-	(600,000)	-	-	-
Proposed cash dividend	-	-	860,523	-	-	-	(860,523)	-	-	-
Proposed Bonus shares	-	-	172,105	-	-	-	(172,105)	-	-	-
Zakat	-	-	-	-	-	-	(134,557)	(134,557)	-	(134,557)
Directors' fee	-	-	-	-	-	-	(5,350)	(5,350)	-	(5,350)
Balance at 31 December 2008	**3,445,400**	**5,198,338**	**1,032,628**	**(888,714)**	**111,411**	**(3,307)**	**29,478**	**8,925,234**	**120**	**8,925,354**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008 (continued)

	Share capital AED'000	Total reserves AED'000	Proposed cash dividends AED'000	Cumulative changes in fair value AED'000	Hedging reserve AED'000	Share based payments AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interests AED'000	Total equity AED'000
Balance at 1 January 2007 – as reported	2,800,000	3,973,304	1,176,000	544,649	-	-	43,197	8,537,150	287,100	8,824,250
Income on effective profit rate pertaining to period prior 1 January 2007	-	-	-	-	-	-	119,706	119,706	-	119,706
Effect on depositors share of profit of above	-	-	-	-	-	-	(119,706)	(119,706)	-	(119,706)
Balance at 1 January 2007 – restated	2,800,000	3,973,304	1,176,000	544,649	-	-	43,197	8,537,150	287,100	8,824,250
Net profit for the year	-	-	-	-	-	-	2,500,421	2,500,421	12,400	2,512,821
Issue of Bonus Shares	196,000	-	(196,000)	-	-	-	-	-	-	-
Dividends paid	-	-	(980,000)	-	-	-	-	(980,000)	-	(980,000)
Payments to minority	-	-	-	-	-	-	-	-	(33,994)	(33,994)
Minority interest – new acquisitions	-	-	-	-	-	-	-	-	9,190	9,190
Share based payments vested	-	-	-	-	-	-	36,846	36,846	-	36,846
Net unrealised gain on available for sale investments	-	-	-	578,418	-	-	-	578,418	-	578,418
Released on disposal of available for sale investments	-	-	-	(116,430)	-	-	-	(116,430)	-	(116,430)
Transfer from retained earnings	-	755,000	-	-	-	-	(755,000)	-	-	-
Exchange difference arising on translation of foreign operations	-	(2,983)	-	-	-	-	-	(2,983)	-	(2,983)
Proposed cash dividend	-	-	1,198,400	-	-	-	(1,198,400)	-	-	-
Proposed Bonus shares	-	-	449,400	-	-	-	(449,400)	-	-	-
Zakat	-	-	-	-	-	-	(118,660)	(118,660)	-	(118,660)
Directors' fee	-	-	-	-	-	-	(5,350)	(5,350)	-	(5,350)
Other movements	-	(15,105)	-	-	-	-	-	(15,105)	(23,886)	(38,991)
Balance at 31 December 2007	2,996,000	4,710,216	1,647,800	1,006,637	-	-	53,654	10,414,307	250,810	10,665,117

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

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2008

	2008 AED'000	2007 AED'000 (Restated)
OPERATING ACTIVITIES		
Profit before tax including gain on transfer of interest in subsidiary net of depositors' share of profits	**1,728,155**	2,498,673
Adjustments for:		
Revaluation of investments at fair value through profit or loss	**277,068**	(169,026)
Dividend income	**(116,184)**	(94,487)
Gain on sale of investment properties	**(89,744)**	(138,549)
Income from sale of properties	**-**	(141,331)
Shared based payments	**18,069**	36,847
Impairment loss on financial assets	**518,161**	301,468
Share of profits of associates	**(401,034)**	(203,462)
Depreciation of investment properties	**20,125**	28,029
Depreciation of property, plant and equipment	**103,258**	85,539
Gain on transfer of interest in subsidiary	**-**	(968,964)
Gain on sale of other investments	**(9,534)**	-
Income from properties held for sale	**(31,718)**	-
Operating profit before changes in operating assets and liabilities	**2,016,622**	1,234,737
Decrease in other investments	**-**	47,849
Increase in Islamic financing and investing assets	**(14,459,360)**	(11,285,158)
Decrease/(increase) in receivables and other assets	**177,206**	(260,193)
Increase in customers' deposits	**3,781,874**	17,443,112
Increase/(decrease) in due to banks and other financial institutions	**1,163,039**	(2,173,245)
Increase in other liabilities	**478,790**	1,429,820
Decrease in accrued zakat	**(120,933)**	(61,153)
Cash (used in)/from operations	**(6,962,762)**	6,375,769
Tax paid	**-**	(35,291)
Net cash (used in)/from operating activities	**(6,962,762)**	6,340,478

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

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2008 (continued)

	2008 AED'000	2007 AED'000 (Restated)
INVESTING ACTIVITIES		
Investments in Islamic sukuk	**(2,714,517)**	(2,747,109)
Proceeds from sale of investments at fair value through profit or loss	**31,987**	369,509
Purchase of available for sale investments	**(801,730)**	(362,041)
Proceeds from sale of properties under construction	**(4,287)**	4,754
Proceeds from disposal of investment properties	**396,290**	417,535
Addition to properties under construction	**(178,772)**	152,564
Purchase of investment properties	**(367,958)**	(1,591,512)
Net cash related on disposal of subsidiaries	**(505,388)**	(389,546)
Dividend income	**116,184**	94,487
Investments in associates	**(111,902)**	90,341
Purchase of property, plant and equipment	**(413,457)**	(329,556)
Proceeds from sale of property, plant and equipment	**20,814**	96,919
Proceeds from properties held for sale	**93,879**	-
Exchange differences arising on translation of foreign operations	**40,571**	(2,013)
Net cash used in investing activities	**(4,398,286)**	(4,195,668)
FINANCING ACTIVITIES		
Dividends paid	**(1,198,400)**	(980,000)
Issue of sukuk	**-**	2,754,750
Share based payments	**3,307**	-
Minority interests	**(14,692)**	(48,690)
Net cash (used in)/from financing activities	**(1,209,785)**	1,726,060
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	**(12,570,833)**	3,870,870
Cash and cash equivalents at the beginning of the year	**22,381,078**	18,510,208
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (note 48)	**9,810,245**	22,381,078

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008

1 GENERAL

Dubai Islamic Bank (Public Joint Stock Company) ("the Bank") was incorporated by an Amiri Decree issued on 29 Safar 1395 Hijri, corresponding to 12 March 1975 by His Highness, the Ruler of Dubai, to provide banking and related services based on Islamic Sharia'a principles. It was subsequently registered under the Commercial Companies Law number 8 of 1984 (as amended) as a Public Joint Stock Company.

In addition to its main office in Dubai, the Bank operates through its branches in the U.A.E. The accompanying consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries, its associates and joint ventures:

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2008	2007
1.	Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	**95.5%**	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	**100.0%**	100.0%
3.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	**99.5%**	99.5%
4.	Millennium Capital Limited	Investments and financial services	U.A.E.	**95.5%**	95.5%
5.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**96.0%**	96.0%
6.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**96.0%**	96.0%
7.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
8.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	**99.0%**	99.0%
9.	DIB Printing Press L.L.C.	Printing	U.A.E.	**99.5%**	99.5%
10.	Bank of Khartoum	Banking	Sudan	**-**	52.3%
11.	Millennium Finance Corporation Limited	Financial advisory	U.A.E.	**-**	65.0%
12.	Zone One Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
13.	Zone Two Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
14.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
15.	DIB Lease One Ltd.	Investments	Bahamas	**100.0%**	100.0%
16.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	**100.0%**	100.0%
17.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
18.	Al Islami Oceanic Shipping Co FZ L.L.C	Investments	U.A.E.	**100.0%**	100.0%
19.	Emirates Trading Center L.L.C.	Trading in motor vehicles	U.A.E.	**100.0%**	100.0%
20.	Millennium Capital Holding PSC (formerly Islamic Investment Company P.S.C.)	Financing & investing	U.A.E.	**95.5%**	95.5%
21.	Sequia Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
22.	Bulwark Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
23.	Optimum Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
24.	Rubicon Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
25.	Osiris Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
26.	Lotus Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
27.	Premiere Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
28.	Landmark Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
29.	Blackstone Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
30.	Blue Nile Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
31.	Momentum Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
32.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	**99.0%**	-
33.	Dar al Shariah Financial & Legal Consultancy L.L.C	Financial and legal advisory	U.A.E.	**60.0%**	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

1 GENERAL (continued)

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2008	Percentage of equity 2007
34.	Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	U.A.E.	**75.5%**	75.5%
35.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	**100%**	100%
36.	HoldInvest Real Estate Sarl	Investments	Luxembourg	**100%**	100%
37.	France Invest Real Estate SAS	Real estate development	France	**100%**	100%
38.	SARL Barbanniers	Investments	France	**100%**	100%
39.	SCI le Sevine	Investment in real estate	France	**100%**	100%
40.	Findi Real Estate SAS	Trust activities	France	**Controlling interest**	Controlling interest
41.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Trading and management	Austria	**100%**	100%
42.	Al Islami German Holding Co. GMBH	Investments	Germany	**100%**	100%
43.	Rhein Logistics GMBH	Administration	Germany	**100%**	100%
44.	Jef Holdings BV	Trust activities	Netherlands	**Controlling interest**	Controlling interest

In addition to the registered ownership described above, the remaining equity in the entities 1, 3, 4, 5, 6, 8, 9 and 20 to 32 and 34 is also held by the Bank beneficially through nominee arrangements.

	Associates	Principal activity	Country of incorporation	Percentage of equity 2008	Percentage of equity 2007
45.	Bank of Khartoum	Banking	Sudan	**28.4 %**	-
46.	Millennium Finance Corporation Limited	Financial advisory	U.A.E.	**32.5%**	-
47.	Millennium Private Equity Ltd.	Investments	U.A.E.	**32.5%**	-
48.	Etisalat International Pakistan Ltd.	Investments	U.A.E.	**10.0%**	10.0%
49.	Bosnia International Bank	Banking	Bosnia	**27.3%**	27.3%
50.	BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	**13.6%**	27.3%
51.	Liquidity Management Center (B.S.C)	Brokers	Bahrain	**25.0%**	25.0%
52.	Emirates National Securitisation Corporation	Securitisation	Cayman Islands	**35.0%**	35.0%
53.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.	**43.0%**	43.0%
54.	Omega Engineering L.L.C.	Mechanical, electrical & plumbing	U.A.E.	**23.7%**	23.7%
55.	Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi	Property Development	Turkey	**43.0%**	43.0%
56.	DIB Tower SAL	Investment in real estate	Lebanon	**43.0%**	43.0%
57.	Beirut Bay SAL	Property Development	Lebanon	**43.0%**	43.0%
58.	Deyaar (UK) Ltd.	Representative Office of Deyaar	UK	**43.0%**	43.0%
59.	Deyaar Cayman Ltd.	Investment holding company	Cayman Islands	**43.0%**	43.0%
60.	Faisal Islamic Bank of Kibris	Banking	TRNC	**31.0%**	31.0%
61.	Saba Islamic Bank	Banking	Yemen	**18.5%**	-
62.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	**16.66%**	-

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2008	Percentage of equity 2007
63.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	**50.0%**	50.0%
64.	Waqf Trust Services L.L.C.	Trust and fiduciary services	U.A.E.	**50.0%**	-
65.	Al Rimal Development	Property development	U.A.E.	**50.0%**	-
66.	Gulf Tankers L.L.C.	Cargo and transport	U.A.E.	**50.0%**	50.0%

1 GENERAL (continued)

The entities listed as 34 and 66 did not conduct any operations during the current or previous periods.

Although the Bank's interest in the equity of the entities listed as 48, 50, 61 and 62 is less than 20%, the Bank exercises significant influence over these entities. These investments have, accordingly, been accounted for as 'investments in associates'.

The registered head office of the Bank is at P.O. Box 1080, Dubai, United Arab Emirates (U.A.E.).

The Bank is registered as a P.J.S.C. in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended).

2 ADOPTION OF NEW AND REVISED STANDARDS

Three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) effective for the current period are as follows:

- IFRIC 11 IFRS 2 *Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction.*

The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

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

New Standards and Amendments to Standards:

• IAS 1 (Revised) *Presentation of Financial Statements* and IAS 32 (Revised) *Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation*	Effective for annual periods beginning on or after 1 January 2009
• IAS 23 (Revised) *Borrowing Costs*	Effective for annual periods beginning on or after 1 January 2009
• IAS 39 (Revised) *Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items*	Effective for annual periods beginning on or after 1 July 2009
• IFRS 1 (Revised) First time Adoption of IFRS and IAS 27 (Revised) Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first time adoption	Effective for annual periods beginning on or after 1 January 2009

2 ADOPTION OF NEW AND REVISED STANDARDS (continued)

New Standards and Amendments to Standards: (continued)

• IFRS 2 (Revised) *Share-based payment – Amendment relating to vesting conditions and cancellations*	Effective for annual periods beginning on or after 1 January 2009
• IFRS 3 (Revised) *Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to* IAS 27 (Revised) *Consolidated and Separate Financial Statements,* IAS 28 (Revised) *Investments in Associates* and IAS 31 (Revised) *Interests in Joint Ventures*	Effective for annual periods beginning on or after 1 July 2009
• IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after 1 January 2009
• Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 *resulting from the May and October 2008 Annual Improvements to IFRSs*	Effective for annual periods beginning on or after 1 January 2009

New Interpretations:

• IFRIC 13 Customer Loyalty Programmes	Effective for annual periods beginning on or after 1 July 2008
• IFRIC 15 Agreements for the Construction of Real Estate	Effective for annual periods beginning on or after 1 January 2009
• IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Effective for annual periods beginning on or after 1 October 2008
• IFRIC 17 Distributions of Non-cash Assets to Owners	Effective for annual periods beginning on or after 1 July 2009
• IFRIC 18 *Transfers of Assets from Customers*	Effective for annual periods beginning on or after 1 July 2009

The directors anticipate that the adoption of those Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

3 DEFINITIONS

The following terms are used in the consolidated financial statements with the meaning specified:

<u>Murabahat</u>

An agreement whereby the Bank sells to a customer a commodity or asset, which the Bank 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.

<u>Istisna'a</u>

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

3 DEFINITIONS (continued)

Ijarah

An agreement whereby the Bank (lessor) purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for a specific period and against certain rent installments. Ijarah could end by transferring the ownership of the asset to the lessee.

Musharaka

An agreement between the Bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Mudaraba

An agreement between the Bank and a third party whereby one party would provide a certain amount of funds, which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib 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 Bank 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.

Sukuk

These comprise asset backed, Sharia'a compliant trust certificates.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No.2624/2008 dated 12 October 2008, the Bank's exposure in Cash and balances with Central Banks, Balances and deposits with banks and other financial institutions, International murabahat with financial institutions, short term and other investments outside the UAE have been presented under the respective notes.

4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments mainly investment carried at fair value through profit or loss, available for sale investments, unilateral promise to buy/sell currencies and Islamic swaps which are measured at fair value.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Dubai Islamic Bank P.J.S.C. and its subsidiaries (collectively referred to as "the Bank") as set out in Note 1. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when 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 the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All inter-company balances, income and expense items are eliminated on consolidation.

Minority interest represents the portion of profit or loss for the year and net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately from the Bank's equity therein. Minority interests consist of minority equity holders' share in the net equity of the subsidiaries.

4.4 Revenue recognition

Income from investing and financing assets

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset. The effective profit rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabahat

Murabahat income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the bank's total Istisna'a cost) is accounted for on a time- apportioned basis.

Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Musharaka

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

Mudaraba

Income or losses on Mudarabat financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Revenue recognition (continued)

Sukuk

Income is accounted for on a time-apportioned basis over the term of the Sukuk.

Sale of property

Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- The Bank has transferred to the buyer the significant risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Revenue on sale of apartments is recognised on the basis of percentage completion as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage;
- The buyer is committed and is unable to require a refund except for non-delivery of the unit. Management believes that the likelihood of the Bank being unable to fulfil its contractual obligations is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Fee and commission income

Fee and commission income is recognised when the related services are performed.

Rental income

Rental income from investment properties is recognised on a straight line basis over the terms of the relevant lease and is stated net of related expenses.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

4.5 Cost of sale of property

Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

4.6 Balances and deposits with banks and other financial institutions

Balances and deposits with banks and other financial institutions are stated at cost less amounts written off and provision for impairment, if any.

4.7 International murabahat with financial instituions, short term

International murabahat with financial institutions, short term are stated at cost less provisions for impairment and deferred profits.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Islamic financing and investing assets

Islamic financing and investing assets consist of murabahat receivables, mudaraba, musharaka and wakala arrangements, istisna'a and ijarah contracts and they are measured at amortised cost less any amounts written off and allowance for doubtful accounts. Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing and investing assets are stated at cost less any provisions for impairment and deferred income.

Allowance for impairment is made against Islamic financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Islamic financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

4.9 Islamic financing and investing assets impairment

Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial Islamic financing and investing assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing assets is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

a) Principal and profit are not serviced as per contractual terms; and,
b) When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows discounted at the Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing assets' observable market price or fair value of the collaterals if the Islamic financing and investing assets is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing assets' carrying value and its present impaired value.

Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows.

Renegotiated financing facilities

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Investments in joint ventures

The Bank's interests in joint ventures, which are defined as those entities which are subject to joint control, are accounted for under the proportionate consolidation method whereby the Bank accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

The reporting dates of the joint venture and the Bank are identical and the joint venture's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

4.11 Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, cost in respect to unsold properties is eliminated from properties under construction and transferred to properties held for sale.

4.12 Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale when construction is completed. Properties held for sale are stated at cost or at net realisable value, whichever is lower. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

4.13 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in 'Other operating income' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

4.15 Other investments

Investments carried at fair value through profit or loss

Financial assets are classified at fair value through profit or loss ("FVTPL") where the financial assets is either held for trading or 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
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short- term profit taking.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available for sale investments

All investments are initially recognised at cost, being the fair value of the consideration given including paid plus transaction costs that are directly attributable to the acquisition.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Other investments (continued)

Non-trading investments (continued)

Held to maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments. Held to maturity investments are carried at amortised cost, using effective profit rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective profit rate method.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to profit rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale investments

Investments not classified as either "held for trading" or "held to maturity" are classified as "available for sale" and are stated at fair value.

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the cumulative changes in fair value with the exception of impairment losses, profit calculated using the effective yield method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

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

4.16 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

• Buildings	15-25 years
• Plant and machinery	15-20 years
• Furniture and office equipment	3-5 years
• Information technology	3-5 years
• Motor vehicles	3 years

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Property, plant and equipment (continued)

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.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

4.17 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with the Bank's policies.

4.18 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.19 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless they are remote.

4.20 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 profit method, with depositors' share of profit recognised on an effective yield basis.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Other financial liabilities (continued)

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating depositors' share of profit over the relevant period. The effective profit 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.

4.21 Customers' deposits and due to banks and other financial institutions

Customers' deposits and due to banks and other financial institutions 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 profit method.

4.22 Employees' end of service benefits

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

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

4.23 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective countries in which the Bank operates.

Deferred income taxation is provided using the liability method on all temporary differences at the balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

4.24 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:
- Zakat on shareholders' equity is deducted from their dividends and is computed on their zakat pool (shareholders' equity less paid up capital, donated land reserve, hedging reserve and cumulative changes in fair value) plus employees' end of service benefits.
- Zakat on profit equalisation provision is charged to this provision after it has been calculated.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves.

4.25 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Sharia'a Supervisory Board.

4.26 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated cash flow statement consists of cash and balances with central banks, due from banks and international Murabahat with original maturities of three months or less.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.27 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated balance sheet date is recognised in the consolidated income statement for assets classified as held for trading and in the consolidated statement of changes in equity for assets classified as available for sale.

4.28 Forfeited income

According to the Fatwa and Sharia'a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities (forfeited income).

4.29 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

4.30 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and reported net in the consolidated balance sheet only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

4.31 Impairment of financial assets

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.32 Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

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

4.33 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Bank enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic swap.

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 recognised pricing models as appropriate.

For the purpose of hedge accounting, the Bank classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised 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 recognised asset or liability, or a highly probable 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 objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.33 Derivative financial instruments (continued)

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Derivatives embedded in other financial instruments or other non-financial 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 unrealised gains or losses reported in the consolidated income statement.

4.34 Unilateral promise to buy/sell currencies (the Promise)

The promises are stated at fair value. The fair value of a promise is the equivalent of the unrealised gain or loss from marking to market the contract using prevailing market rates. The promise with positive market value (unrealised gain) are included in other assets and contracts with negative market value (unrealised losses) are included in other liabilities in the balance sheet.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.35 Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated balance sheet date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4.36 Foreign currencies

Transactions in currencies other than AED are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are revalued at the rates prevailing on the consolidated balance sheet date. Profits and losses arising on exchange are included in the consolidated income statement.

The assets and liabilities of the Bank's overseas operations are translated at exchange rates prevailing on the consolidated balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Bank's retained earnings. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

4.37 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

4.38 Segment reporting

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

4.39 Fair values

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

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value.

For investments in properties, fair value is determined periodically on the basis of independent professional valuations.

The fair value of unilateral promise to buy/sell currencies is calculated by reference to foreign exchange rates with similar maturities.

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

While applying the accounting policies as stated in Note 4, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of derivative financial instruments are summarised as follows:

5.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful Islamic financing and investing assets.

5.1.1 Individually assessed Islamic financing and investing assets

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

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals.
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation.
- The expected time frame to complete legal formalities and disposals of collaterals.

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

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

5.1.2 Collectively assessed Islamic financing and investing assets

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

5.2 Fair value of unquoted 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) 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 counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY (continued)

5.3 Transfer of equitable interest in properties

The Bank has entered into a number of contracts with buyers for the sale of land and apartment units. Management has determined that the equitable interest in such assets and therefore, risks and rewards of the ownership, are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. Based on this, the Bank recognises revenues and profits as the acts to complete the property are performed.

5.4 Classification of investments

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

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

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

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

5.5 Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

5.6 Impairment of associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

In determining the value in use of the investment, the Bank estimates:

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or

ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY (continued)

5.7 Costs to complete properties under development

As described in note 4, when the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to stage of completion of the contract activity at the balance sheet date. In judging whether the outcome of the construction contract can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 ‘Construction Contracts’. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to each construction contract. When it is estimated that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The management has considered the costs to be incurred based on analysis and forecast of construction work to be executed.

5.8 Islamic 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 recognised pricing models as appropriate. When independent 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 judgement 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 for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit 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.

6 CASH AND BALANCES WITH CENTRAL BANKS

	2008 AED'000	2007 AED'000
Cash in hand	**1,293,409**	1,027,859
Balances with central banks:		
- Current accounts	**686,886**	813,684
- Reserve requirements	**4,348,371**	3,064,114
	6,328,666	4,905,657

The reserve requirements are kept with the Central Banks of U.A.E. and Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective Central Banks. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives.

Cash and balances with Central Banks by geography is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**6,212,874**	4,523,409
Outside the U.A.E.	**115,792**	382,248
	6,328,666	4,905,657

7 BALANCES AND DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008 AED'000	2007 AED'000 (Restated)
Current accounts	**322,697**	682,865
Investment deposits	**1,518,281**	512,855
	1,840,978	1,195,720

Balances and deposits with banks and other financial institutions by geography is as follows:

	2008 AED'000	2007 AED'000 (Restated)
Within the U.A.E.	**1,313,602**	941,264
Outside the U.A.E.	**527,376**	254,456
	1,840,978	1,195,720

8 INTERNATIONAL MURABAHAT WITH FINANCIAL INSTITUTIONS, SHORT TERM

International murabahat with financial institutions by geography is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**1,278,355**	7,042,219
Outside the U.A.E.	**362,246**	9,237,482
	1,640,601	16,279,701

9 ISLAMIC FINANCING AND INVESTING ASSETS

	2008 AED'000	2007 AED'000
Financing		
Commodities murabahat	**8,328,995**	8,452,997
International murabahat, long term	**1,779,248**	2,405,710
Vehicles murabahat	**6,735,209**	4,979,679
Real estate murabahat	**6,431,362**	6,071,640
Total murabahat	**23,274,814**	21,910,026
Istisna'a	**8,443,662**	7,511,596
Ijara	**9,946,785**	7,147,159
Islamic credit cards	**309,800**	257,373
	41,975,061	36,826,154
Less: Deferred income	**(4,617,627)**	(4,031,793)
Provisions for impairment	**(1,186,864)**	(1,046,662)
Contractors and consultants' Istisna'a contracts	**(1,555,810)**	(1,786,179)
	34,614,760	29,961,520
Investing		
Musharakat	**10,047,283**	4,544,234
Mudarabat	**7,208,814**	5,920,503
Wakalat	**846,491**	186,598
	18,102,588	10,651,335
Less: Provisions for impairment	**(58,337)**	(78,007)
	18,044,251	10,573,328
Total Islamic financing and investing assets, net	**52,659,011**	40,534,848

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

9 ISLAMIC FINANCING AND INVESTING ASSETS (continued)

Islamic financing and investing assets by industry group and geography are as follows:

	2008			2007		
	U.A.E. AED'000	**International AED'000**	**Total AED'000**	U.A.E. AED'000	International AED'000	Total AED'000
Economic sector						
Financial institutions	**4,567,767**	**409,444**	**4,977,211**	1,981,401	943,373	2,924,774
Real estate	**19,716,956**	**231,740**	**19,948,696**	15,663,170	1,289,569	16,952,739
Trade	**4,814,638**	**320,329**	**5,134,967**	3,062,147	871,522	3,933,669
Government	**4,398,741**	**45,729**	**4,444,470**	2,723,103	-	2,723,103
Manufacturing and services	**9,847,947**	**1,948,297**	**11,796,244**	5,184,800	3,565,639	8,750,439
Personal financings and others	**7,602,624**	**-**	**7,602,624**	6,374,793	-	6,374,793
Total	**50,948,673**	**2,955,539**	**53,904,212**	34,989,414	6,670,103	41,659,517
Less: Allowance for impairment			**(1,245,201)**			(1,124,669)
Total			**52,659,011**			40,534,848

Provisions for impairment

Movements in the provision for impairment are as follows:

	Financing AED'000	**Investing AED'000**	**Total AED'000**
2008			
Balance, beginning of the year	**1,046,662**	**78,007**	**1,124,669**
Charge for the year	**295,498**	**9,898**	**305,396**
Release to the income statement	**(59,830)**	**(28,207)**	**(88,037)**
Pertaining to subsidiaries disposed off	**(89,509)**	**-**	**(89,509)**
Write-offs	**(5,957)**	**(36)**	**(5,993)**
Others	-	**(1,325)**	**(1,325)**
Balance, end of the year	**1,186,864**	**58,337**	**1,245,201**
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,179,036**	**47,842**	**2,226,878**

	Financing AED'000	Investing AED'000	Total AED'000
2007			
Balance, beginning of the year	802,366	78,877	881,243
Charge for the year	325,056	6,798	331,854
Release to the income statement	(55,581)	(7,668)	(63,249)
Write-offs	(25,179)	-	(25,179)
Balance, end of the year	1,046,662	78,007	1,124,669
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,604,424	80,321	1,684,745

9 ISLAMIC FINANCING AND INVESTING ASSETS (continued)

Collateral

The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with investing and financing assets. This collateral includes savings and investment deposits, financial guarantees, equities, real estate and other fixed assets. The estimated value of collaterals, other than retail assets which are mainly asset based financing, is as follows:

	2008 AED'000	2007 AED'000
Guarantees	**81,924,287**	43,539,548
Property and Mortgages	**26,571,190**	12,438,573
Deposits	**1,409,832**	901,538
Vehicles and Machinery	**48,071**	39,718

The fair value of collateral that the Bank holds relating to facilities individually determined to be impaired at 31 December 2008 amounts to AED 3,094,000,000 (2007: AED 384,050,000).

During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 4,384,000 (2007: AED 3,199,000), which has been adjusted against the outstanding receivable.

10 INVESTMENTS IN ISLAMIC SUKUK

Investments in Islamic sukuk by geographical area are as follows:

	2008 AED'000	2007 AED'000
Within U.A.E.	**10,831,125**	7,813,423
Other G.C.C. Countries	**170,681**	565,274
Rest of the world	**224,470**	133,062
	11,226,276	8,511,759

Investments in Islamic sukuk are held to maturity and are measured at amortised cost.

11 INVESTMENTS IN ASSOCIATES

Investments in associates comprise:

	2008 AED'000	2007 AED'000
Share in capital and financing	**3,954,343**	3,573,871
Share of profits	**611,127**	217,151
Less: provision for impairment	**(109,426)**	(49,426)
	4,456,044	3,741,596

Provision for impairment of investments in associates

	2008 AED'000	2007 AED'000
Balance, beginning of the year	**49,426**	27,500
Charge for the year (note 45)	**60,000**	21,926
Balance, end of the year	**109,426**	49,426

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

11 INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates summarised information of the Bank's investments in associates:

	2008 AED'000	2007 AED'000
Share of associates' balance sheets:		
Assets	**7,201,203**	5,722,294
Liabilities	**(2,635,733)**	(1,931,271)
Net assets	**4,565,470**	3,791,023
Less: Provision for impairment	**(109,426)**	(49,427)
Carrying value of investment in associates	**4,456,044**	3,741,596
Share of associates' revenues and results:		
Revenues	**1,616,522**	419,711
Results	**401,034**	203,462

Carrying value of investment in associates by geographical area are as follows:

	2008 AED'000	2007 AED'000
Within U.A.E.	**4,083,901**	3,606,182
Other G.C.C. Countries	**59,431**	58,647
Rest of the world	**312,712**	76,767
	4,456,044	3,741,596

12 OTHER INVESTMENTS

	2008 AED'000	2007 AED'000 (Restated)
Investments carried at fair value through income statement	**322,128**	820,849
Available for sale investments	**1,785,808**	3,261,833
	2,107,936	4,082,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

12 OTHER INVESTMENTS (continued)

	31 December 2008			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Equity instruments	**953**	**234,199**	**86,976**	**322,128**
Available for sale investments				
Quoted:				
Equity instruments	**541,776**	**76,178**	**19,179**	**637,133**
Unquoted:				
Equity instruments	**212,863**	**134,151**	**12,386**	**359,400**
Investment funds	**431,632**	**-**	**396,835**	**828,467**
	644,495	**134,151**	**409,221**	**1,187,867**
Gross available for sale investments	**1,186,271**	**210,329**	**428,400**	**1,825,000**
Allowance for impairment	**(150)**	**(11,269)**	**(27,773)**	**(39,192)**
Net available for sale investments	**1,186,121**	**199,060**	**400,627**	**1,785,808**
Total	**1,187,074**	**433,259**	**487,603**	**2,107,936**

	31 December 2007 (Restated)			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through income statement				
Equity instruments	5,327	606,611	208,911	820,849
Available for sale investments				
Quoted:				
Equity instruments	2,169,091	27,559	60,100	2,256,750
Unquoted:				
Equity instruments	137,989	132,287	148,915	419,191
Investment funds	-	392,870	223,882	616,752
	137,989	525,157	372,797	1,035,943
Gross available for sale investments	2,307,080	552,716	432,897	3,292,693
Allowance for impairment	-	(27,860)	(3,000)	(30,860)
Net available for sale investments	2,307,080	524,856	429,897	3,261,833
Total	2,312,407	1,131,467	638,808	4,082,682

The available for sale investments amounting to AED 1,785,808,000 (2007: AED 3,261,833,000) is stated net of investments written down of AED 224,000,000 (2007: AED nil) charged to the consolidated income statement during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

12 OTHER INVESTMENTS (continued)

Industry distribution of other investments is as follows:

	2008 AED'000	2007 AED'000 (Restated)
Banks and other financial institutions	**861,320**	2,303,316
Real estate	**520,831**	532,572
Manufacturing and others	**725,785**	1,246,794
	2,107,936	4,082,682

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of other methods suitable for arriving at a reliable fair value.

Movements in the provision for impairment of available for sale investments are as follows:

	2008 AED'000	2007 AED'000
Balance, beginning of the year	**30,860**	14,899
Charge for the year	**10,794**	23,961
Release to the income statement	**(2,462)**	(7,000)
Write-offs	-	(1,000)
Balance, end of the year	**39,192**	30,860

During the year, the held for trading investments were reclassified to available for sale investments. The reclassification was made in accordance with the recent amendments to IAS 39 issued on 12 October 2008 with respect to reclassification of financial assets. The fair value at the date of reclassification was AED 155.6 million and at 31 December 2008 was AED 76.2 million.

13 PROPERTIES UNDER CONSTRUCTION

The movement in properties under construction during the year was as follows:

	2008 AED'000	2007 AED'000
Balance, beginning of year	-	2,171,004
Additions	**178,772**	981,345
Disposals (note 41)	**-**	(510,855)
Other transfers	**79,058**	-
Transfer to Deyaar P.J.S.C. (note 21)	-	(2,641,494)
Balance, end of year	**257,830**	**-**

14 PROPERTIES HELD FOR SALE

Properties held for sale represent properties in Egypt that are registered in the name of certain subsidiaries of the Bank.

	2008 AED'000	2007 AED'000
Balance, beginning of year	**131,831**	136,585
Additions	**100,809**	-
Disposals (Note 41)	**(62,161)**	-
Exchange losses	**(2,228)**	(4,754)
Balance, end of year	**168,251**	131,831

15 INVESTMENT PROPERTIES

	2008 AED'000	2007 AED'000 (Restated)
Land		
In U.A.E.	**1,171,601**	1,171,537
Other G.C.C. Countries	**936**	936
Rest of World	**51,766**	66,113
	1,224,303	1,238,586
Less: Provision for impairment	**(300)**	(300)
	1,224,003	1,238,286
Other real estate		
In U.A.E.	**366,271**	304,923
Other G.C.C. Countries	**4,193**	6,904
Rest of World	**538,424**	593,305
	908,888	905,132
Less: Accumulated depreciation	**(127,852)**	(108,520)
	781,036	796,612
Investment properties, net	**2,005,039**	2,034,898

The fair value of the investment properties has been arrived at on the basis of a valuation carried out by independent valuers. The valuers are members of various professional valuers' associations, and have appropriate qualifications and recent experience in the valuation of properties at the relevant locations. The effective date of the valuations is 31 December 2008.

The fair value of the Bank's investment properties as of 31 December 2008 is AED 4,301,943,000 (2007: AED 3,079,000,000).

Land in the U.A.E. includes land valued at AED 276,139,000 (2007: AED 276,139,000) donated by the Government of Dubai which has been allocated for the sole benefit of the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

15 INVESTMENT PROPERTIES (continued)

The movement in investment properties is as follows:

2008

	Land AED'000	**Other Real Estate AED'000**	**Total AED'000**
Cost:			
Balance, beginning of the year	**1,238,586**	**905,132**	**2,143,718**
Additions	**306,608**	**61,350**	**367,958**
Disposals	**(306,544)**	**(40,181)**	**(346,725)**
Transfers	**(12,085)**	**(2,713)**	**(14,798)**
Exchange effect	**(2,262)**	**(14,700)**	**(16,962)**
Balance, end of the year	**1,224,303**	**908,888**	**2,133,191**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	**300**	**108,520**	**108,820**
Charge for the year	**-**	**20,125**	**20,125**
Exchange effect	**-**	**(793)**	**(793)**
Balance, end of the year	**300**	**127,852**	**128,152**
Carrying amount			
31 December 2008	**1,224,003**	**781,036**	**2,005,039**

2007 (Restated)

	Land AED '000	Other Real Estate AED '000	Total AED '000
Cost:			
Balance, beginning of the year	541,281	300,727	842,008
Additions	987,107	604,405	1,591,512
Transfer	-	24,417	24,417
Disposals	(289,802)	(24,417)	(314,219)
Balance, end of the year	1,238,586	905,132	2,143,718
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	80,495	80,795
Charge for the year	-	28,029	28,029
Disposals	-	(2,149)	(2,149)
Transfers	-	2,145	2,145
Balance, end of the year	300	108,520	108,820
Carrying amount			
31 December 2007	1,238,286	796,612	2,034,898

16 RECEIVABLES AND OTHER ASSETS

	2008 **AED'000**	2007 AED'000 (Restated)
Income receivable	**608,080**	774,518
Rental income receivable	**465,223**	120,104
Trade receivables	**75,858**	80,561
Cheques sent for collection	**14,840**	240,825
Advances to contractors	-	30,811
Inventories	**19,748**	250,256
Prepaid expenses	**47,382**	55,448
Qard Hassan (profit-free facilities)	**8,000**	8,000
Overdrawn current accounts, net	**6,206**	4,833
Deferred taxation (note 26)	**25,371**	28,109
Derivative assets (note 35)	**111,411**	-
Others	**289,609**	680,177
	1,671,728	2,273,642

Overdrawn current accounts, net are stated net of provision for impairment amounting to AED 28,533,046 (2007: AED 25,679,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

17 PROPERTY, PLANT AND EQUIPMENT

2008

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
As of 1 January 2008	211,428	80,782	293,869	188,698	28,730	158,104	961,611
Additions	29,909	2,459	43,828	35,994	129	303,850	416,169
Disposals	(155,027)	-	(63,928)	(4,646)	(22,167)	(13,508)	(259,276)
Other transfers	-	-	42,973	75,074	-	(156,431)	(38,384)
Exchange adjustments	-	(855)	(12,601)	(2,867)	(1,905)	(3,932)	(22,160)
As of 31 December 2008	86,310	82,386	304,141	292,253	4,787	288,083	1,057,960
Accumulated depreciation:							
As of 1 January 2008	36,266	49,158	124,364	110,104	11,052	-	330,944
Charge for the year	2,390	3,360	58,613	37,550	1,345	-	103,258
Disposals	(7,308)	-	(24,914)	(1,200)	(8,632)	-	(42,054)
Other transfers	-	-	-	-	-	-	-
Exchange adjustments	-	(81)	(1,503)	(741)	(616)	-	(2,941)
As of 31 December 2008	31,348	52,437	156,560	145,713	3,149	-	389,207
Carrying amount							
31 December 2008	54,962	29,949	147,581	146,540	1,638	288,083	668,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

17 PROPERTY, PLANT AND EQUIPMENT (continued)

2007

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
As of 1 January 2007	306,835	79,868	188,193	127,301	26,727	29,851	758,775
Additions	1,187	3,064	95,370	66,837	9,904	153,194	329,556
Disposals	(73,047)	(2,128)	(13,013)	(5,991)	(7,861)	(836)	(102,876)
Other transfers	(24,417)	-	23,486	485	-	(23,971)	(24,417)
Exchange adjustments	870	(22)	(167)	66	(40)	(134)	573
As of 31 December 2007	211,428	80,782	293,869	188,698	28,730	158,104	961,611
Accumulated depreciation:							
As of 1 January 2007	36,411	46,659	81,136	87,465	11,503	-	263,174
Charge for the year	3,526	3,847	48,298	24,957	4,911	-	85,539
Disposals	(1,552)	(1,347)	(5,085)	(2,318)	(5,369)	-	(15,671)
Other transfers	(2,145)	-	-	-	-	-	(2,145)
Exchange adjustments	26	(1)	15	-	7	-	47
As of 31 December 2007	36,266	49,158	124,364	110,104	11,052	-	330,944
Carrying value							
31 December 2007	175,162	31,624	169,505	78,594	17,678	158,104	630,667

18 GOODWILL

	2008 AED'000	2007 AED'000
At 1 January	**36,910**	36,910
Written off during the year	**(36,910)**	-
At 31 December	-	36,910

Impairment testing of goodwill

Goodwill acquired through business combination was allocated to Bank of Khartoum as a cash-generating unit for impairment testing. As the investment in Bank of Khartoum has been partially diluted resulting in changes in classification of the investment, the goodwill has been written off. Also refer to note 20.

19 INVESTMENTS IN JOINT VENTURES

The Bank's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are as under:

	2008 AED'000	2007 AED'000
Cash and balances with banks	**8,327**	9,371
Islamic financing and investing assets	**953**	4,275
Properties under construction	**47,053**	-
Receivables and other assets	**12,849**	28,669
Property, plant and equipment	**4,022**	3,574
Total assets	**73,204**	45,889
Other liabilities	**34,337**	10,284
Profit for the year	**8,059**	25,345

20 DILUTION OF INTEREST IN SUBSIDIARIES

Effective 1 February 2008, Bank of Khartoum (a subsidiary as at that date) and Emirates and Sudan Bank, Sudan, were merged ("the transaction") and commenced operations as Bank of Khartoum. As part of the transaction, Bank of Khartoum issued 144,318,188 shares to the shareholders of Emirates & Sudan Bank at par resulting in dilution of the Bank's interest in Bank of Khartoum from 52.3% to 28.4%. The investment in the Bank of Khartoum is classified as investment in associates.

During the year 2008, the Bank partially disposed of its interest in Millennium Finance Corporation Limited (then a subsidiary) resulting in dilution of the Bank's interest from 65% to 32.5%. The Bank's investment in Millennium Financial Corporation is classified as investment in associates.

The assets and liabilities of subsidiaries, where the Bank's interests had been diluted, as of 31 December 2007 were as follows:

	2007 AED'000
Cash & Balances with Banks	**583,552**
Islamic Financing & Investing assets	**1,992,726**
Equity investments	**343,950**
Investment properties	**40,181**
Prepayments and other assets	**414,126**
Property, plant and equipment	**196,410**
Total assets	**3,570,945**
Customers' Deposits	**2,530,258**
Due to banks & Financial institutions	**87,320**
Accounts payable and accruals	**448,542**
Minority interests	**235,998**
Total liabilities	**3,302,118**
Net assets	**268,827**
Profit on disposal of subsidiaries	**36,517**

21 TRANSFER OF INTEREST IN SUBSIDIARY

The Bank transferred its entire interest in Deyaar Development Company P.S.C. (a subsidiary company) engaged in real estate development to Deyaar Development P.J.S.C. as at 30 May 2007 for a consideration of AED 2,600,000,000 to be settled by the issue of 2,600,000,000 shares of AED 1 each in Deyaar Development P.J.S.C.

The assets and liabilities of Deyaar Development Company P.S.C. as of 30 May 2007 were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

21 TRANSFER OF INTEREST IN SUBSIDIARY (continued)

	30 May 2007 AED'000
Property, plant and equipment	**14,956**
Properties under construction	**2,641,494**
Accounts and notes receivable	**245,267**
Prepayments and other assets	**382,079**
Bank balances and cash	**584,598**
Total assets	**3,868,394**
Employees' end of service benefits	**2,805**
Retention payable	**44,531**
Islamic finance obligations	**857,038**
Term loan	**1,346**
Accounts payable and accruals	**1,327,875**
Minority interest	**3,763**
Total liabilities	**2,237,358**
Net assets	**1,631,036**
Consideration	**2,600,000**
Gain arising on transfer	**968,964**

22 CUSTOMERS' DEPOSITS

	2008 AED'000	2007 AED'000 (Restated)
a) By Type		
Current accounts	**14,060,338**	13,804,657
Saving accounts	**11,151,372**	8,730,070
Investment deposits	**40,608,612**	41,619,982
Margin accounts	**281,497**	450,800
Profit equalisation provision (note 49)	**325,391**	570,085
	66,427,210	65,175,594
b) By contractual maturity:		
Demand deposits	**28,446,620**	16,299,754
Deposits due within 3 months	**23,335,037**	27,040,433
Deposits due within 6 months	**5,428,646**	2,333,038
Deposits due within 1 year	**8,763,923**	17,998,356
Deposits due over 1 year	**452,984**	1,504,013
	66,427,210	65,175,594
c) By geographical areas:		
Within U.A.E.	**62,235,902**	59,598,309
Outside U.A.E.	**4,191,308**	5,577,285
	66,427,210	65,175,594

22 CUSTOMERS' DEPOSITS (continued)

	2008 AED'000	2007 AED'000 (Restated)
d) By currency:		
U.A.E. Dirham	**60,325,978**	53,163,825
Other currencies	**6,101,232**	12,011,769
	66,427,210	65,175,594

23 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008 AED'000	2007 AED'000
Current accounts	**99,293**	240,660
Investment deposits	**3,231,808**	2,000,662
	3,331,101	2,241,322

Due to banks and other financial institutions by geography is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**3,024,538**	607,158
Outside the U.A.E.	**306,563**	1,634,164
	3,331,101	2,241,322

24 SUKUK FINANCING INSTRUMENTS

During 2007 the Bank, through a sharia'a compliant Sukuk Financing arrangement, raised medium term finance amounting to AED 2,754,750,000 (USD750 million). The sukuk is listed in the Dubai International Financial Exchange and the London Stock Exchange.

The terms of the arrangement include transfer of certain identified assets ("the Co-Owned Assets") including original leased and musharakat assets, Shariaa compliant authorised investments and any replaced assets of the Bank to a Sukuk company, DIB Sukuk Company Limited – the Issuer, specially formed for the sukuk transaction. The assets are in the control of the Bank and shall continue to be serviced by the Bank. The sukuk certificates mature in 2012.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuks, the Bank has undertaken to repurchase the assets at the exercise price of USD 750 million.

The sukuk bears a variable profit rate payable to the investors at the rate of 3 months LIBOR plus 0.33% per annum. Such profits are payable on a quarterly basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

25 OTHER LIABILITIES

	2008 AED'000	2007 AED'000 (Restated)
Depositors' share of profit (note 46)	**582,527**	607,980
Payable for properties	**268,282**	336,393
Bankers cheques	**306,889**	453,968
Cheques received for collection	**204,589**	209,148
Sundry deposits	**180,264**	381,704
Trade payables	**461,523**	480,615
Rent received in advance	**186,547**	88,468
Vendor payable for investing and financing assets	**188,234**	-
Provision for employees' end-of-service benefits	**74,313**	60,256
Unclaimed dividends	**100,803**	35,272
Provision for taxation (note 26)	**3,544**	3,484
Directors' remuneration	**5,350**	5,350
Payable to contractors	**3,872**	6,082
Fund transfer and remittances	**160,138**	-
Investments related payable	**293,585**	293,585
Others	**429,072**	431,281
	3,449,532	3,393,586

26 TAXATION

Provision for taxation

	2008 AED'000	2007 AED'000
Opening balance	**3,484**	37,823
Current period charge	**3,544**	952
Taxes paid	**-**	(35,291)
Relating to subsidiary disposed off	**(3,484)**	**-**
Closing balance	**3,544**	3,484

Deferred tax asset

	2008 AED'000	2007 AED'000
Deferred tax asset at beginning of the year	**28,109**	13,009
Additions during the year	**5,679**	15,100
Exchange effect	**(8,417)**	**-**
Deferred tax asset at the end of the year	**25,371**	28,109

Tax reversal / (charge) for the year

	2008 AED'000	2007 AED'000
Current taxation	**(3,544)**	(952)
Deferred taxation	**5,679**	15,100
Income tax – net reversal	**2,135**	14,148

27 ACCRUED ZAKAT

	2008 AED'000	2007 AED'000
Zakat on shareholders' equity (except for share capital and donated land reserve)	**134,557**	118,660
Zakat on profit equalisation provision (note 49)	**8,609**	10,882
	143,166	129,542

28 SHARE CAPITAL

	2008		2007	
	Number of shares '000	**Amount in AED '000**	Number of shares '000	Amount in AED '000
Authorised				
Ordinary shares of AED 1 each	**3,445,400**	**3,445,400**	3,000,000	3,000,000
Issued and fully paid up				
At 1 January	**2,996,000**	**2,996,000**	2,800,000	2,800,000
Bonus shares	**449,400**	**449,400**	196,000	196,000
At 31 December	**3,445,400**	**3,445,400**	2,996,000	2,996,000

During the year 449,400,000 shares of AED 1 each were issued as a scrip dividend (2007: 196,000,000 shares).

29 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In 2004, the Bank established an Employee Stock Ownership Plan (ESOP) to recognise and retain key employees. The plan gives the employee the right to own the Bank's shares at the issue price. In accordance with a resolution of the shareholders of the Bank at the Extraordinary General Meeting of shareholders held on 26 June 2004, the shareholders surrendered 2% of their share entitlement under the Bank's rights issue, at the rights issue price of AED 20 per share, for the benefit of the Bank's employees under this plan. Under this arrangement, the bank acquired 913,999 of its own shares at the issue price of AED 20 per share.

The Bank granted 502,699 shares during 2004 at the rights issue price of AED 20 per share to key employees who achieved certain pre-determined criteria. These employees' entitlement to ownership became effective on or before 31 December 2004.

The remaining 411,300 shares of AED 10 each acquired by the Bank under this scheme were held as ESOP shares and were equivalent to 4,113,000 shares of AED 1 each after the share split during 2005. The cost of acquisition of these shares was AED 8,226 thousand at the rate of AED 20 per share of a nominal value of AED 10 each or AED 2 per share after the share split.

These shares were issued at AED 2 each during the previous year, under nominee arrangements, to various categories of employees on condition that the employees continue in the service of the Bank for an agreed minimum period ranging between three to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares would revert back to the Bank. Management considers it unlikely that a significant amount of shares would revert back to the Bank on account of employees leaving before completing their vesting period.

29 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) (continued)

The fair value of these shares on the grant date was AED 109,817,000. Accordingly, at the grant date, an amount of AED 101,591,000, being the fair value less the amounts recoverable from the employees, was determined to be charged to the consolidated income statement over the vesting period. During the year 2008, a number of staff have left the Bank, and 3,307,000 shares have been taken back. As a result the yearly charge on account of ESOP have been changed prospectively as follows:

Year	*Prospective charge to consolidated income statement*	*Charge to consolidated income statement at grant date*
	AED '000	AED '000
2006	30,312	30,312
2007	36,846	36,846
2008	18,069	25,085
2009	5,444	6,856
2010	478	2,492
Total	91,149	101,591

30 RESERVES

	Statutory reserve	**Donated land reserve**	**General reserve**	**Exchange translation reserve**	**Total**
	AED '000	AED '000	AED '000	AED '000	AED '000
As of 1 January 2007	2,761,030	286,951	895,000	30,323	3,973,304
Exchange and other adjustments	-	-	-	(2,983)	(2,983)
Reversal of share premium in a subsidiary	(4,293)	-	-	-	(4,293)
Transfer from retained earnings	-	-	755,000	-	755,000
Relating to disposal of donated land	-	(10,812)	-	-	(10,812)
As of 31 December 2007	2,756,737	276,139	1,650,000	27,340	4,710,216
Exchange and other adjustments	-	-	-	(87,020)	(87,020)
Transfer from retained earnings	-	-	600,000	-	600,000
Movement as a result of disposed subsidiaries	(24,858)	-	-	-	(24,858)
As of 31 December 2008	**2,731,879**	**276,139**	**2,250,000**	**(59,680)**	**5,198,338**

Statutory reserve
Article 192 of the U.A.E. Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law. The statutory reserve includes AED 2,000 million being the premium collected at AED 2 per share on the rights issue during 2006.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital.

Donated land reserve
The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (Note 15). The donated land reserve represents the fair value of the land, net of disposals, at the time of the donation.

General reserve
Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

31 CUMULATIVE CHANGES IN FAIR VALUE

	2008 **AED'000**	2007 AED'000
At 1 January	**1,006,637**	544,649
Released on disposal of AFS investments	**(58,590)**	(116,430)
Net unrealised (loss)/gain on AFS investments	**(1,836,761)**	578,418
At 31 December	**(888,714)**	1,006,637

32 DIVIDENDS PAID AND PROPOSED

	2008 **AED'000**	2007 AED'000
Cash dividend of AED 0.25 per share of AED 1 each (2007: AED 0.40 per share of AED 1 each)	**860,523**	1,198,400
Scrip dividend of AED 0.05 per share of AED 1 each (2007: AED 0.15 per share of AED 1 each)	**172,105**	449,400

Dividends relating to the year 2007 were declared and paid/issued during the year. Proposed cash and scrip dividends relating to the year 2008 are subject to the approval of the shareholders at the Annual and Extraordinary General Assembly Meeting to be held on 25 March 2009.

33 MINORITY INTEREST

Minority interest represents the minority shareholders' proportionate share in the aggregate value of the net assets of the subsidiaries and the results of the subsidiaries operations.

34 CONTINGENT LIABILITIES AND COMMITMENTS

Financing-related financial instruments
Financing-related financial instruments include commitments to extend financing, standby letters of credit and guarantees which are designed to meet the requirements of the Bank's customers.

Commitments to extend financing represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Bank has outstanding commitments and contingent liabilities under letters of credit and guarantees arising in the normal course of business, as follows:

	2008 **AED'000**	2007 AED'000
Contingent liabilities:		
Acceptances	**603,081**	1,462,287
Letters of credit	**3,387,529**	6,161,796
Letters of guarantee	**17,476,434**	10,381,479
	21,467,044	18,005,562
Commitments		
Capital expenditure commitments	**591,975**	578,299
Irrevocable undrawn facilities commitments	**22,583,592**	9,391,000
	23,175,567	9,969,299
Total contingent liabilities and commitments	**44,642,611**	27,974,861

35 ISLAMIC DERIVATIVES

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

31 December 2008: ***Notional amounts by term to maturity***

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount Total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy / sell currencies	**47,463**	**68,062**	**11,255,642**	**3,795,463**	**6,174,629**	**1,285,550**	**-**	**-**
Islamic profit rate swaps	**231,735**	**227,776**	**9,559,792**	**-**	**-**	**-**	**9,206,987**	**352,805**
	279,198	**295,838**	**20,815,434**	**3,795,463**	**6,174,629**	**1,285,550**	**9,206,987**	**352,805**
Islamic Derivatives held as cash flow hedge:								
Islamic profit rate swaps (note 16)	**111,411**	**-**	**2,000,000**	**-**	**-**	**-**	**2,000,000**	**-**
	390,609	**295,838**	**22,815,434**	**3,795,463**	**6,174,629**	**1,285,550**	**11,206,987**	**352,805**

31 December 2007: ***Notional amounts by term to maturity***

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount Total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy / sell currencies	33,726	29,633	14,936,790	12,009,606	356,084	2,571,100	-	-
Islamic profit rate swaps	33,052	33,052	4,530,033	-	-	1,941,443	2,588,590	-
	66,778	62,685	19,466,823	12,009,606	356,084	4,512,543	2,588,590	-

The bank has positions in the following types of derivative.

Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the promise dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

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Islamic Swaps

Islamic Swaps are based on a Wa'ad (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant data in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as notional amounts are exchanged in different currencies.

35 ISLAMIC DERIVATIVES (continued)

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and strategic hedging (see below). Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

For profit rate risk, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into profit rate swaps. As strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

36 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	2008 AED'000	2007 AED'000 (Restated)
Financing assets		
Commodities murabahat	**624,216**	468,140
International murabahat	**30,941**	156,616
Vehicles murabahat	**457,142**	347,642
Real estate murabahat	**414,346**	321,448
Total murabahat income	**1,526,645**	1,293,846
Istisna'a	**267,306**	216,851
Ijara	**514,260**	504,558
Income from financing assets	**2,308,211**	2,015,255
Investing assets		
Musharakat	**445,769**	400,469
Mudarabat	**378,092**	226,368
Wakalat	**65,590**	61,891
Others	**7,178**	21,016
Income from investing assets	**896,629**	709,744
Total income from Islamic financing and investing assets	**3,204,840**	2,724,999

Income from commodities murabahat is presented net of forfeited income of AED 10,615,000 (2007: AED 10,532,904).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

37 INCOME FROM INTERNATIONAL MURABAHATS, SHORT TERM

	2008 **AED'000**	2007 AED'000
Income from international murabahats	**242,098**	627,136
Income from investment and wakala deposits	**24,110**	15,132
	266,208	642,268

38 (LOSS)/INCOME FROM OTHER INVESTMENTS

	2008 **AED'000**	2007 AED'000
Dividend from available for sale investment funds	**31,465**	162,695
Gain on sale of investments carried at fair value through profit or loss	**9,534**	158,279
(Loss)/gain on revaluation of investments carried at fair value through profit or loss	**(277,068)**	169,026
Realised gain on disposal of available for sale investments	**58,590**	116,430
Dividend on available for sale investments	**89,197**	60,908
Dividend on trading and fair value through profit or loss investments	**26,987**	33,579
	(61,295)	700,917

39 COMMISSIONS, FEES AND FOREIGN EXCHANGE INCOME

	2008 **AED'000**	2007 AED'000
Trade related commission and fees	**301,164**	290,303
Other commissions and fees	**447,079**	414,275
Gains on unilateral promise to buy/sell currencies	**119,925**	93,749
Fair value of Islamic derivatives	**3,959**	-
	872,127	798,327

40 INCOME FROM INVESTMENT PROPERTIES

	2008 **AED'000**	2007 AED'000 (Restated)
Net rental income	**90,657**	93,275
Gain on sale of investment properties	**89,744**	138,549
	180,401	231,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

41 INCOME FROM SALE OF PROPERTIES

	2008 AED'000	2007 AED'000
From Properties under construction:		
Revenue	-	652,186
Cost of sale (note 13)	-	(510,855)
	-	141,331
From Properties held for sale:		
Revenue	**93,879**	-
Cost of sale (note 14)	**(62,161)**	-
	31,718	-
	31,718	141,331

42 OTHER INCOME

	2008 AED'000	2007 AED'000
Services income, net	**89,492**	70,119
Gain on sales of fixed assets	**14**	5,139
Others	**9,217**	51,610
	98,723	126,868

43 PERSONNEL EXPENSES

	2008 AED'000	2007 AED'000
Salaries and wages	**758,922**	740,421
Staff terminal benefits	**24,012**	20,798
Share based payments	**18,069**	36,847
Staff insurance costs	**24,062**	21,806
Others	**57,432**	46,630
	882,497	866,502

44 GENERAL AND ADMINISTRATIVE EXPENSES

	2008 AED'000	2007 AED'000 (Restated)
Administrative expenses	**131,065**	246,329
Depreciation of property, plant and equipment	**103,259**	85,539
Rental charges payable under operating leases	**58,944**	47,649
Communication costs	**47,076**	38,575
Premises and equipment maintenance costs	**41,105**	31,088
Printing and stationery	**12,243**	12,035
Others	**123,353**	149,617
	517,045	610,832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

45 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2008	2007
	AED'000	AED'000
Provision for investing assets	**(18,309)**	(870)
Provision for financing assets	**235,668**	269,475
Impairment loss on available for sale investments	**232,332**	16,961
Provision for receivables and other assets	**8,469**	(6,024)
Provision for guarantees	**2,670**	-
Impairment loss on investments in associates	**60,000**	21,926
	520,830	301,468

46 DEPOSITORS' SHARE OF PROFITS

	2008	2007
	AED'000	AED'000 (Restated)
Share for the year, including share of gain on transfer of subsidiary	**1,876,205**	2,746,869
Less: Pertaining to depositors' profit equalisation provision (Note 49)	**(25,415)**	(15,657)
Transfer from/(to) depositors' profit equalisation provision (Note 49)	**102,734**	(356,360)
	1,953,524	2,374,852
Less: Paid during the year	**(1,370,997)**	(1,766,872)
Depositors' share of profit payable (Note 25)	**582,527**	607,980

Share of profits accrued to customers and financial institutions is as follows:

	2008	2007
Investment and savings deposits from customers	**1,463,253**	2,226,284
Wakala and other investment deposits from banks and customers	**311,439**	389,602
Profit accrued on sukuk	**101,513**	130,983
	1,876,205	2,746,869

47 BASIC AND DILUTED EARNINGS PER SHARE

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

	2008	2007
Profit for the year net of directors' remuneration of AED 5,350,000 (2007: AED 5,350,000)	**1,724,940,000**	2,495,071,000
Weighted average number of shares of AED 1 each outstanding during the year	**3,442,094,000**	3,445,400,000
Basic and diluted earnings per share	**AED 0.50**	AED 0.72

The earnings per share of AED 0.72 as reported for 2007 has been adjusted for the effect of the shares issued in 2008 as a result of the scrip dividend.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

48 CASH AND CASH EQUIVALENTS

	2008	2007
	AED'000	AED'000
Cash and balances with central banks	**6,328,666**	4,905,657
International murabahat with financial institutions, short term	**1,640,601**	16,279,701
Balances and deposits with banks and financial institutions	**1,840,978**	1,195,720
	9,810,245	22,381,078

49 PROFIT EQUALISATION PROVISION

	2008	2007
	AED'000	AED'000
		(Restated)
Balance, beginning of the year – as reported	**570,085**	89,244
Transfer from retained earnings for share of profit pertaing to prior years	**(158,766)**	119,706
Share of profit for the year (Note 46)	**25,415**	15,657
Zakat for the year (Note 27)	**(8,609)**	(10,882)
Additional transfer (to) / from depositors' share of profit during the year (Note 46)	**(102,734)**	356,360
Balance, end of the year (Note 22)	**325,391**	570,085

Profit equalisation provision represents a portion of the depositors' share of profits set aside as a provision. This provision is payable to the depositors upon the approval of the Board of Directors and the Bank's Fatwa and Sharia'a Supervisory Board. Zakat on profit equalisation provision is included under accrued Zakat.

50 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

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

	Major shareholders AED'000	**Directors and key management personnel AED'000**	**Associates AED'000**	**Total AED'000**
2008				
Financing and investing assets	**5,365,704**	**192,558**	**779,580**	**6,337,842**
Customers' deposits	**2,971**	**13,051**	**158,559**	**174,581**
Contingent liabilities	**1,719,843**	**5**	**105,970**	**1,825,818**
Income from financing and investing assets	**27,260**	**4,991**	**18,829**	**51,080**
Depositors' share of profits	**59**	**74**	**400**	**533**

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2007				
Financing and investing assets	4,372,521	225,366	358,793	4,956,680
Customers' deposits	273,527	54,831	491,377	819,735
Contingent liabilities	2,115,119	13,316	12,489	2,140,924
Income from financing and investing assets	240,796	14,959	22,214	277,969
Depositors' share of profits	11,520	313	12,498	24,331

The compensation paid to key management personnel of the Bank is as follows:

	2008 AED'000	2007 AED'000
Salaries and other benefits	**38,780**	36,364
Employee terminal benefits	**1,020**	745

51 SEGMENTAL INFORMATION

For operating purposes the Bank is organised into four major business segments as follows:

i) Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, credit card and funds transfer facilities and trade finance facilities.
ii) Corporate and investment banking:	Principally handling financing and investing facilities and deposit and current accounts for corporate and institutional customers and investment banking services.
iii) Real estate:	Property development and other real estate investments.
iv) Others:	Treasury and other functions.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

Primary segment information – business segments

2008

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2008:

	Retail and business banking AED'000	Corporate and investment banking AED'000	Real estate AED'000	Others AED'000	Total AED'000
Segment revenue	**1,846,972**	**1,989,240**	**420,857**	**1,287,788**	**5,544,857**
Operating expenses	**(828,614)**	**(407,701)**	**(59,369)**	**(123,983)**	**(1,419,667)**
Provisions for impairment	**(55,178)**	**(458,405)**	**-**	**(7,247)**	**(520,830)**
Profit for the year before depositors' share and taxation	**963,180**	**1,123,134**	**361,488**	**1,156,558**	**3,604,360**
Depositors' share of profits	**(673,722)**	**(997,586)**	**-**	**(204,897)**	**(1,876,205)**
	289,458	**125,548**	**361,488**	**951,661**	**1,728,155**
Taxation					**2,135**
Net profit for the year					**1,730,290**
Segment assets	**10,208,514**	**53,852,198**	**5,540,819**	**15,429,582**	**85,031,113**
Segment liabilities and equity	**40,671,022**	**33,110,601**	**742,092**	**10,507,398**	**85,031,113**
Capital expenditure	**62,881**	**332,480**	**-**	**20,808**	**416,169**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

51 SEGMENTAL INFORMATION (continued)

Primary segment information – business segments

2007
The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2007:

	Retail and business banking AED'000	Corporate and investment banking AED'000	Real estate AED'000	Others AED'000	Total AED'000
Segment revenue	2,666,674	2,141,932	357,726	880,702	6,047,034
Operating expenses	(771,832)	(323,936)	(121,412)	(251,808)	(1,468,988)
Provisions for impairment	(37,025)	(239,898)	-	(24,545)	(301,468)
Profit for the year before depositors' share, taxation and gain on transfer of interest in subsidiary	1,857,817	1,578,098	236,314	604,349	4,276,578
Depositors' share of profits	(1,437,438)	(527,186)	11,362	(441,812)	(2,395,074)
	420,379	1,050,912	247,676	162,537	1,881,504
Net gain on transfer of interest in subsidiary					617,169
Taxation					14,148
Net profit for the year					2,512,821
Segment assets	8,271,614	47,080,794	4,938,387	24,069,116	84,359,911
Segment liabilities and equity	45,181,091	19,994,502	3,493,600	15,690,718	84,359,911
Capital expenditure	28,494	195,527	-	105,959	329,980

Secondary segment information – geographical segments

Although the management of the Bank is based primarily on business segments, the Bank operates in two geographic markets: U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international. The following table shows the distribution of the Bank's operating income, total assets and capital expenditure by geographical segment:

	Domestic		***International***		***Total***	
	2008 AED'000	2007 AED'000	**2008 AED'000**	2007 AED'000	**2008 AED'000**	2007 AED'000
Gross income	**5,001,463**	5,688,006	**543,394**	359,028	**5,544,857**	6,047,034
Total assets	**78,058,156**	78,819,818	**6,972,957**	5,540,093	**85,031,113**	84,359,911
Capital expenditure	**384,003**	243,204	**32,166**	86,776	**416,169**	329,980

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2008

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	2,070,520	4,258,146	-	-	-	6,328,666
Balances and deposits with banks and other financial institutions	527,111	1,313,867	-	-	-	1,840,978
International murabahats, short term	1,640,601	-	-	-	-	1,640,601
Islamic financing and investing assets	5,509,723	7,302,115	11,833,098	19,913,751	8,100,324	52,659,011
Investment in sukuk	-	-	-	11,226,276		11,226,276
Properties held for sale	-	-	-	168,251	-	168,251
Investment properties	-	-	-	2,005,039	-	2,005,039
Investments in associates	-	-	-	4,456,044	-	4,456,044
Other investments	-	-	-	2,107,936	-	2,107,936
Properties under construction	-	-	-	257,830	-	257,830
Receivables and other assets	21,965	15,861	1,493,463	131,773	8,666	1,671,728
Property, plant and equipment	1,255	2,498	10,426	626,715	27,859	668,753
Goodwill	-	-	-	-	-	-
Total	9,771,175	12,892,487	13,336,987	40,893,615	8,136,849	85,031,113
Liabilities:						
Customers' deposits	8,135,907	15,511,748	22,900,502	19,872,887	6,166	66,427,210
Due to banks and other financial institutions	348,534	113,113	2,869,454	-	-	3,331,101
Sukuk financing instruments	-	-	-	2,754,750	-	2,754,750
Other liabilities	1,639,061	624,368	287,350	898,753	-	3,449,532
Accrued zakat	-	-	143,166	-	-	143,166
Equity	-	-	861,350	-	8,064,004	8,925,354
Total	10,123,502	16,249,229	27,061,822	23,526,390	8,070,170	85,031,113
Net maturities gap	(352,327)	(3,356,742)	(13,724,835)	17,367,225	66,679	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

52 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

At 31 December 2007

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	1,027,859	3,877,798	-	-	-	4,905,657
Balances and deposits with banks and other financial institutions	673,802	9,063	512,855	-	-	1,195,720
International murabahats, short term	6,552,361	8,226,217	1,501,123	-	-	16,279,701
Islamic financing and investing assets	5,965,352	5,658,754	10,716,034	13,815,288	4,379,420	40,534,848
Investment in Islamic sukuk	-	-	-	8,511,759	-	8,511,759
Properties held for sale	-	-	-	131,831	-	131,831
Investment properties	-	-	-	2,034,898	-	2,034,898
Investments in associates	-	-	-	3,741,596	-	3,741,596
Other investments	-	820,849	2,256,750	1,005,083	-	4,082,682
Receivables and other assets	240,825	45,923	1,986,894	-	-	2,273,642
Property, plant and equipment	-	-	-	455,504	175,163	630,667
Goodwill	-	36,910	-	-	-	36,910
Total	14,460,199	18,675,514	16,973,656	29,695,959	4,554,583	84,359,911
Liabilities:						
Customers' deposits	4,760,675	23,487,660	2,085,220	34,842,039	-	65,175,594
Due to banks and other financial institutions	240,660	-	2,000,662	-	-	2,241,322
Sukuk financing instruments	-	-	-	2,754,750	-	2,754,750
Other liabilities	639,886	99,896	523,673	2,130,131	-	3,393,586
Accrued zakat	-	129,542	-	-	-	129,542
Equity	-	1,198,400	-	-	9,466,717	10,665,117
Total	5,641,221	24,915,498	4,609,555	39,726,920	9,466,717	84,359,911
Net maturities gap	8,818,978	(6,239,984)	12,364,101	(10,030,961)	(4,912,134)	-

53 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

The fair value of unilateral promise to buy/sell currencies and Islamic swaps is set out in note 35. The fair value of the Bank's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2008.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) the carrying amounts approximate to their fair value. This applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Valuation of all financial instruments recorded at fair value, is based on quoted market prices.

54 FINANCIAL ASSETS AND LIABILITIES

At 31 December 2008

	Financings and receivables AED'000	**Available for sale AED'000**	**Fair value through profit and loss AED'000**	**Amortised cost AED'000**	**Carrying amount AED'000**
Financial assets					
Cash and balances with Central banks	-	-	-	**6,328,666**	**6,328,666**
Balances and deposits with banks and financial institutions	-	-	-	**1,840,978**	**1,840,978**
International murabahat, short term	-	-	-	**1,640,601**	**1,640,601**
Islamic financing and investing assets	**52,659,011**	-	-	-	**52,659,011**
Investment in Islamic sukuk	-	-	-	**11,226,276**	**11,226,276**
Other investments	-	**1,785,808**	**322,128**	-	**2,107,936**
Receivables and other assets	**1,580,227**	-	-	-	**1,580,227**
	54,239,238	**1,785,808**	**322,128**	**21,036,521**	**77,383,695**
Financial liabilities					
Customer deposits	-	-	-	**66,427,210**	**66,427,210**
Due to banks and other financial institutions	-	-	-	**3,331,101**	**3,331,101**
Sukuk financing instruments	-	-	-	**2,754,750**	**2,754,750**
Other liabilities	-	-	-	**3,449,532**	**3,449,532**
	-	**-**	**-**	**75,962,593**	**75,962,593**

At 31 December 2007

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Cash and balances with Central banks	-	-	-	4,905,657	4,905,657
Balances and deposits with banks and financial institutions	-	-	-	1,195,720	1,195,720
International murabahat, short term	-	-	-	16,279,701	16,279,701
Islamic financing and investing assets	40,376,082	-	-	-	40,376,082
Investment in Islamic sukuk				8,511,759	8,511,759
Other investments	-	3,261,833	820,849	-	4,082,682
Receivables and other assets	2,921,765	-	-	-	2,921,765
	43,297,847	3,261,833	820,849	30,892,837	78,273,366
Financial liabilities					
Customer deposits	-	-	-	65,175,594	65,175,594
Due to banks and other financial institutions	-	-	-	2,241,322	2,241,322
Sukuk financing instruments	-	-	-	2,754,750	2,754,750
Other liabilities	-	-	-	3,393,586	3,393,586
	-	-	-	73,565,252	73,565,252

55 RISK MANAGEMENT

55.1 Introduction

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

The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

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

55.1.1 Risk management structure

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

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Management Committee

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

Risk Management and Control

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk and overall risk control.

Treasury

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

Internal Audit

Risk management processes throughout the Bank are audited periodically by the internal audit which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit comments the results of their assessments with management, and reports its findings and recommendations to the Audit Committee.

55.1.2 Risk measurement and reporting systems

The Bank measures risks using conventional qualitative methods for credit, market and operational risks. Further, the Bank also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Bank also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

55 RISK MANAGEMENT (continued)

55.1 Introduction (continued)

55.1.2 Risk measurement and reporting systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity and other risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

55.1.3 Risk mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, profit rate risk, foreign currencies, equity risks, and operational risks.

The Bank seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to guard against liquidity risk, management as diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

55.1.4 Risk concentration

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

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

55.2 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.2 Credit Risk (continued)

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

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

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for amount advance, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Islamic derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfill certain obligations to other parties. This exposes the Bank to a similar risk to financing and investing assets and these are mitigated by the same control processes and policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.2 Credit Risk (continued)

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2008 AED'000	Gross maximum exposure 2007 AED'000
Balances with Central banks	**5,035,257**	3,877,798
Balances and deposits with banks and other financial institutions	**1,840,978**	1,195,720
International murabahat, short term	**1,640,601**	16,279,701
Islamic financing and investing assets	**53,904,212**	41,659,517
Investment in Islamic sukuk	**11,226,246**	8,511,759
Other investments	**2,147,128**	4,113,541
Receivables and other assets	**1,646,978**	2,028,193
	77,441,400	77,666,229
Contingent liabilities	**21,466,997**	18,005,562
Commitments	**22,583,592**	9,391,000
Total	**121,491,989**	105,062,791

55.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

At 31 December 2008

	Retail and business banking AED'000	**Corporate and investment banking AED'000**	**Real estate AED'000**	**Total AED'000**
U.A.E.	**9,622,299**	**73,806,360**	**26,146,812**	**109,575,471**
GCC	**-**	**2,800,554**	**5,219,631**	**8,020,185**
South Asia	**586,215**	**1,587,269**	**-**	**2,173,484**
Europe	**-**	**928,756**	**-**	**928,756**
Africa	**-**	**352,859**	**-**	**352,859**
Others	**-**	**408,912**	**32,322**	**441,234**
Total	**10,208,514**	**79,884,710**	**31,398,765**	**121,491,989**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.2 Credit Risk (continued)

55.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

At 31 December 2007

	Retail and business banking AED'000	Corporate and investment banking AED'000	Real estate AED'000	Total AED'000
U.A.E.	8,442,835	52,493,128	18,803,695	79,739,658
G.C.C.	-	4,433,712	2,291,898	6,725,610
South Asia	334,139	1,628,715	-	1,962,854
Europe	-	11,251,751	-	11,251,751
Africa	-	4,839,075	-	4,839,075
Others	-	538,497	5,346	543,843
Total	8,776,974	75,184,878	21,100,939	105,062,791

An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum Exposure	
	2008 AED'000	2007 AED'000
Financial Institutions	**18,198,657**	32,083,302
Government	**9,914,793**	5,309,040
Manufacturing and services	**35,460,529**	23,209,820
Real Estate	**37,052,940**	28,179,145
Retail	**7,626,802**	6,705,191
Trade	**13,238,268**	9,576,293
Total	**121,491,989**	105,062,791

55.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.
The main types of collateral obtained are as follows:

- For commercial financing and investing facilities, charges over real estate properties, inventory and trade receivables,
- For retail financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for financings to their subsidiaries, but the benefits are not included in the above table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.2 Credit Risk (continued)

55.2.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for investing and financing related balance sheet lines, based on the Bank's credit rating system.

At December 2008

	Non-impaired exposures			
	Low and fair risk AED'000	**Past due AED'000**	**Individually impaired AED'000**	**Total AED'000**
Cash and balances with Central banks	**5,035,257**	**-**	**-**	**5,035,257**
Balances and deposits with banks and other financial institutions	**1,840,978**	**-**	**-**	**1,840,978**
International murabahat, short term	**1,640,601**	**-**	**-**	**1,640,601**
Islamic financing and investing assets	**48,860,455**	**2,816,879**	**2,226,878**	**53,904,212**
Investment in Islamic sukuks	**11,226,246**	**-**	**-**	**11,226,246**
Other investments	**1,906,037**	**-**	**241,091**	**2,147,128**
Receivables and other assets	**1,618,452**	**-**	**28,526**	**1,646,978**
	72,128,026	**2,816,879**	**2,496,495**	**77,441,400**
Contingent liabilities	**21,466,997**	**-**	**-**	**21,466,997**
Commitments	**22,583,592**	**-**	**-**	**22,583,592**
	44,050,589	**-**	**-**	**44,050,589**
Total	**116,178,615**	**2,816,879**	**2,496,495**	**121,491,989**

At December 2007

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
Cash and balances with Central banks	3,877,798	-	-	3,877,798
Balances and deposits with banks and other financial institutions	1,195,720	-	-	1,195,720
International murabahat, short term	16,279,701	-	-	16,279,701
Islamic financing and investing assets	39,151,298	1,128,333	1,379,886	41,659,517
Investment in Islamic sukuks	8,511,759	-	-	8,511,759
Other investments	4,000,159	-	113,382	4,113,541
Receivables and other assets	2,002,514	-	25,679	2,028,193
Total	75,018,949	1,128,333	1,518,947	77,666,229
Contingent liabilities	18,005,562			18,005,562
Commitments	9,391,000	-	-	9,391,000
	27,396,562	-	-	27,396,562
Total	102,415,511	1,128,333	1,518,947	105,062,791

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.2 Credit Risk (continued)

55.2.4 Credit quality per class of financial assets (continued)

Past due financing and investing assets include those that are only past due by a few days. An analysis of past due investing and financing assets, by age, is provided. The majority of the past due investing and financing assets are not considered to be impaired.

Credit risk exposure of the Bank's financial assets for each internal risk rating

	Moody's equivalent grades	**Total 2008 AED'000**	Total 2007 AED'000
Low risk			
Risk rating class 1	Aaa	**22,078,924**	20,121,750
Risk rating classes 2 and 3	Aa1-A3	**46,702,299**	41,951,312
Fair risk			
Risk rating class 4	Baa1-Baa3	**18,793,542**	14,917,937
Risk rating classes 5 and 6	Ba1-B3	**25,556,763**	20,401,688
Risk rating class 7	Caa1-Caa3	**3,047,080**	5,022,824
Sub standard			
Risk rating class 8		**2,816,879**	1,128,333
Impaired			
Risk rating classes 9, 10 and 11		**2,496,502**	1,518,947
		121,491,989	105,062,791

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

55.2.5 Aging analysis of past due but not impaired investing and financing assets per class of financial assets

As at December 2008

	Less than 30 days AED'000	**31 to 60 days AED'000**	**61 to 90 days AED'000**	**More than 90 days AED'000**	**Total AED'000**
Islamic financing and investing assets	**1,437,388**	**410,004**	**213,956**	**755,531**	**2,816,879**

As at December 2007

	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
Islamic financing and investing assets	782,178	79,646	35,939	230,570	1,128,333

See Note 45 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

55 RISK MANAGEMENT (continued)

55.2.6 Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2008	2007
	AED '000	AED '000
Islamic financing and investing assets	**155,161**	129,352

55.2.7 Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances, letters of credit and guarantees are assessed and provision made in a similar manner as for Islamic financing and investing assets.

55 RISK MANAGEMENT (continued)

55.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

During 2007, the Bank issued a five year sukuk USD 750 million sukuk to diversify sources of funding to support business growth going forward.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

55.3.1 Liquidity risk management process

The Bank's liquidity risk management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of investing and financing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	March	**June**	**September**	**December**
2008	**28%**	**21%**	**11%**	**10%**
2007	30%	32%	24%	31%

55 RISK MANAGEMENT (continued)

55.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

55.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As at 31 December 2008

	On demand AED'000	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Customers' deposits	**28,446,620**	**23,655,893**	**14,778,012**	**545,228**	**7,544**	**67,433,297**
Due to banks and other financial institutions	**99,293**	**2,918,167**	**367,792**	**-**	**-**	**3,385,252**
Sukuk financing instruments	**-**	**34,434**	**103,303**	**3,167,963**	**-**	**3,305,700**
Other liabilities	**1,639,061**	**655,373**	**287,350**	**1,037,464**	**-**	**3,619,248**
Zakat payable	**-**	**-**	**143,166**	**-**	**-**	**143,166**
Total liabilities	**30,184,974**	**27,263,867**	**15,679,623**	**4,750,655**	**7,544**	**77,886,663**

As at 31 December 2007

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Customers' deposits	16,299,754	27,398,719	21,139,567	1,630,548	-	66,468,588
Due to banks and other financial institutions	240,660	643,007	1,412,330	-	-	2,295,997
Sukuk financing instruments	-	34,082	102,245	3,163,731	-	3,300,058
Other liabilities	1,457,014	148,026	971,592	816,954	-	3,393,586
Zakat payable	-	129,542	-	-	-	129,542
Total liabilities	17,997,428	28,353,376	23,625,734	5,611,233	-	75,587,771

Assets available to meet all of the liabilities and to cover outstanding commitments include cash, central bank balances, items in the course of collection, short term international murabahat with banks, investing and financing assets and other investments.

The Bank's Islamic derivatives will be settled on the following basis:

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic derivatives: comprise Islamic profit rate swaps.

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.3 Liquidity risk and funding management (continued)

55.3.4 Derivative cash flows

As at 31 December 2008

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy / sell currencies	**-**	**3,795,463**	**6,174,629**	**1,285,550**	**-**	**11,255,642**
Islamic profit rate swaps	-	-	-	**11,206,987**	**352,805**	**11,559,792**
	-	**3,795,463**	**6,174,629**	**12,492,537**	**352,805**	**22,815,434**

As at 31 December 2007

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy / sell currencies	-	12,009,606	356,084	2,571,100	-	14,936,790
Islamic profit rate swaps	-	-	-	4,530,033	-	4,530,033
	-	12,009,606	356,084	7,101,133	-	19,466,823

55 RISK MANAGEMENT (continued)

55.3 Liquidity risk and funding management (continued)

55.3.5 Off Balance Sheet items

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

As at 31 December 2008

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	8,518,279	4,091,931	4,865,381	843	17,476,434
- Letters of credit	-	1,989,713	180,457	1,217,359	-	3,387,529
- Acceptances	-	529,058	74,023	-	-	603,081
	-	11,037,050	4,346,411	6,082,740	843	21,467,044
Capital commitments	-	262,052	167,423	162,500	-	591,975
Total	-	11,299,102	4,513,834	6,245,240	843	22,059,019

As at 31 December 2007

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	2,770,614	4,844,649	1,851,646	914,570	10,381,479
- Letters of credit	-	2,181,190	2,015,948	1,964,658	-	6,161,796
- Acceptances	-	723,761	513,731	224,795	-	1,462,287
	-	5,675,565	7,374,328	4,041,099	914,570	18,005,562
Capital commitments	-	-	49,167	529,132	-	578,299
Total	-	5,675,565	7,423,495	4,570,231	914,570	18,583,861

55 RISK MANAGEMENT (continued)

55.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Bank is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

The Bank pays considerable attention to market risk. The Bank uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Bank's market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with the Bank's general market risk policy. The Chief Risk Officer of the Bank ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Bank is required to comply with the guidelines and regulations of the Central Bank of the U.A.E.

55.4.1 Profit margin risk

The Bank is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Bank does not provide contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba contract by which the depositors and investment account holders agree to share the profit or loss made by the Bank over a given period.

55.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2008.

Currency	**Increase in basis points 2008**	**Sensitivity of profit on financing and investing assets AED'000**	Increase in basis points 2007	Sensitivity of profit on financing and investing assets AED'000
AED	**50**	**31,779**	50	25,836
USD	**50**	**19,726**	50	35,358
Euro	**50**	**-**	50	349
Other currencies	**50**	**-**	50	364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.4 Market risk (continued)

55.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Banks presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2008

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	5,946,686	310,724	-	2,449	3,577	65,230	6,328,666
Balances and deposits with financial institutions	1,321,767	379,617	20,769	10,180	30,546	78,099	1,840,978
International murabahat, short term	360,045	918,352	362,204	-	-	-	1,640,601
Islamic financing and investing assets	44,819,047	6,444,260	355,736	-	24,307	1,015,661	52,659,011
Investment in Islamic sukuk	5,695,108	5,391,177	-	-	-	139,991	11,226,276
Other investments	496,822	1,338,787	217,063	7,712	10,137	37,415	2,107,936
Receivables and other assets	1,117,523	274,253	15,576	-	7,774	165,101	1,580,227
Total	59,756,998	15,057,170	971,348	20,341	76,341	1,501,497	77,383,695
Financial Liabilities:							
Customers' deposits	60,462,340	3,240,694	1,643,986	33,787	361,603	684,800	66,427,210
Due to banks and other financial institutions	1,881,874	1,325,471	23	109,523	14,210	-	3,331,101
Sukuk financing instruments	-	2,754,750	-	-	-	-	2,754,750
Other liabilities	2,342,359	416,269	17,260	524	605,631	67,489	3,449,532
Total	64,686,573	7,737,184	1,661,269	143,834	981,444	752,289	75,962,593
Net on balance sheet financial position	(4,929,575)	7,319,986	(689,921)	(123,493)	(905,103)	749,208	1,421,102
Unilateral promise to buy/sell currencies	7,305,612	(8,872,923)	1,326,036	106,558	137,618	(2,901)	-
Cumulative currency position – long / (short)	2,376,037	(1,552,937)	636,115	(16,935)	(767,485)	746,307	1,421,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.4 Market risk (continued)

55.4.3 Foreign exchange risk

At 31 December 2007

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	4,776,442	112,074	-	-	-	17,141	4,905,657
Balance and deposits from financial institutions	623,991	211,365	92,918	9,018	18,941	239,487	1,195,720
International murabahat, short term	5,920,483	10,359,218	-	-	-	-	16,279,701
Islamic financing and investing assets	28,772,091	8,511,128	111,248	-	75,797	2,905,818	40,376,082
Investment in Islamic sukuk	2,750,000	5,702,157	-	-	-	59,602	8,511,759
Other investments	1,771,817	1,551,647	314,532	-	12,846	431,840	4,082,682
Receivables and other assets	2,661,650	154,971	18,913	-	479	85,752	2,921,765
Total	47,276,474	26,602,560	537,611	9,018	108,063	3,739,640	78,273,366
Financial Liabilities:							
Customers' deposits	53,163,825	8,201,948	119,529	34,857	205,212	3,450,223	65,175,594
Due to banks and other financial institutions	710,271	1,438,800	28	-	18,190	74,033	2,241,322
Sukuk financing instruments	-	2,754,750	-	-	-	-	2,754,750
Other liabilities	2,227,222	601,416	93,042	303	466,448	5,155	3,393,586
Total	56,101,318	12,996,914	212,599	35,160	689,850	3,529,411	73,565,252
Net on balance sheet financial position	(8,824,844)	13,605,646	325,012	(26,142)	(581,787)	210,229	4,708,114
Unilateral promise to buy/sell currencies	12,601,924	(12,487,665)	(38,788)	(16,662)	(57,067)	(1,742)	-
Cumulative currency position – long/(short)	3,777,080	1,117,981	286,224	(42,804)	(638,854)	208,487	4,708,114

55 RISK MANAGEMENT (continued)

55.4 Market risk (continued)

55.4.3 Foreign exchange risk

Sensitivity analysis – impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant, including the effect of hedging instruments, on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in % 2008	Effect on profit before tax 2008 AED '000	Increase in currency rate in % 2007	Effect on profit before tax 2007 AED '000
USD	+2	31,059	+2	22,360
GBP	+2	339	+2	(856)
EURO	+2	1,153	+2	(965)

Currency	Decrease in currency rate in % 2008	Effect on profit before tax 2008 AED '000	Decrease in currency rate in % 2007	Effect on profit before tax 2007 AED '000
USD	-2	(31,059)	-2	(22,360)
GBP	-2	(339)	-2	856
EURO	-2	(1,153)	-2	965

55.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Banks presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December 2008 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in % 2008	Effect on profit before tax 2008 AED '000	Effect on Equity 2008 AED '000	Increase in currency rate in % 2007	Effect on profit before tax 2007 AED '000	Effect on Equity 2007 AED '000
Pak Rupees	+5	(264)	12,175	+5	(1,645)	13,397
Sud Pound	+5	-	-	+5	11,215	22,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.4 Market risk (continued)

55.4.4 Foreign investment

Currency	Decrease in currency rate in % 2008	Effect on profit before tax 2008 AED '000	Effect on Equity 2007 AED '000	Decrease in currency rate in % 2007	Effect on profit before tax 2007 AED '000	Effect on Equity 2007 AED '000
Pak Rupees	**-5**	**(240)**	**11,110**	-5	1,496	(12,120)
Sud Pound	**-5**	**-**	**-**	-5	9,039	(20,004)

55.4.5 Equity price risk

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

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

Market indices	% Change in Market indices	Effect on consolidated income statement 2008 AED'000	Effect on equity 2008 AED'000	Effect on consolidated income statement 2007 AED'000	Effect on equity 2007 AED'000
Dubai Financial Market	**±5%**	**-**	**14,068**	-	77,763
Abu Dhabi Stock Market	**±5%**	**-**	**3,619**	51	1,699
Dubai Intl Financial Exchange	**±5%**	**-**	**7,616**	-	25,123
Bahrain Stock Exchange	**±5%**	**8,063**	**-**	3,608	-
Kuwait Stock Exchange	**±5%**	**1,408**	**-**	10,686	-
Saudi Stock Exchange	**±5%**	**210**	**-**	-	1,365
Doha Stock Exchange	**±5%**	**-**	**1,074**	-	-
Others	**±5%**	**125**	**901**	389	(1,914)

55.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Bank has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/ units across different functions of the Bank that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Bank is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the bank. The system houses two years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

55 RISK MANAGEMENT (continued)

55.6 Capital management

55.6.1 Regulatory capital

The Bank's lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Central Bank of the U.A.E. circular No 13/93 requires all banks operating in the U.A.E. to maintain a risk weighted asset ratio (the 'Basel ratio') at a minimum of 10% at all times in which tier 1 capital should not be less than 6% of total risk weighted assets. In implementing current capital requirements of the Central Bank of U.A.E., the Bank maintains the required ratio of regulatory capital to total risk-weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Capital management

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

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

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

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

The Central Bank of U.A.E. vide its notice 2545/2007 dated 31 July 2007 advised all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from 31 December 2007. For credit and market risks, the Central Bank of U.A.E. has issued draft guidelines for implementation of Standardised approach. For operational risk, the Central Bank of U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2008 (continued)

55 RISK MANAGEMENT (continued)

55.6 Capital management (continued)

55.6.1 Regulatory capital (continued)

The ratios calculated in accordance with Basel I and Basel II are as follows:

	Basel I		Basel II	
	2008 AED'000	2007 AED'000	**2008 AED'000**	2007 AED'000
Tier 1 Capital				
Share capital	**3,445,400**	2,996,000	**3,445,400**	2,996,000
Statutory reserves	**2,731,879**	2,756,737	**2,731,879**	2,756,737
Donated land reserve	**-**	-	**276,139**	-
General reserves	**2,250,000**	1,650,000	**2,250,000**	1,650,000
Other reserves	**-**	303,479	**-**	303,479
Proposed bonus shares	**172,105**	449,400	**172,105**	449,400
Retained earnings	**29,478**	53,654	**29,478**	53,654
Minority interest	**120**	250,810	**120**	250,810
	8,628,982	8,460,080	**8,905,121**	8,460,080
Less:				
Goodwill and intangibles	**-**	(36,910)	**-**	(36,910)
Share based payments	**(3,307)**	-	**(3,307)**	-
	8,625,675	8,423,170	**8,901,814**	8,423,170
Tier 2 Capital				
Cumulative changes in fair value	**-**	1,006,637	**-**	452,987
Hedging reserves	**50,135**	-	**50,135**	-
Deductions for associates	**(416,173)**	(3,741,596)	**(416,173)**	(78,925)
	(366,038)	(2,734,959)	**(366,038)**	374,062
Total capital base	**8,259,637**	5,688,211	**8,535,776**	8,797,232
Risk weighted assets				
On balance sheet	**60,489,646**	45,190,252	**-**	-
Off balance sheet	**8,426,079**	6,617,777	**-**	-
Credit risk	**-**	-	**72,222,748**	61,488,671
Market risk	**-**	-	**3,135,334**	2,116,668
Operational risk	**-**	-	**4,513,574**	3,494,179
Total risk weighted assets	**68,915,725**	51,808,029	**79,871,656**	67,099,518
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**12.0%**	11.0%	**10.7%**	13.1%
Tier 1 capital to total risk weighted assets after deductions for associates	**12.5%**	9.0%	**11.1%**	12.6%

56 PRIOR YEAR ADJUSTMENTS

The consolidated financial statements as of and for the year from 1 January 2007 to 31 December 2007 have been restated for the following:

1. Recognition of profit which was amortised on a straight line method over the life of the assets instead of the effective yield method. The adjustments have been done by restating 2007 results for impact for the year ended 31 December 2007 and in retained earnings in consolidated statement of changes in equity for years prior to 2007.
2. Recognition of an investment fund in 2007 as 100% owned subsidiary consolidated on line by line basis. The adjustments have been done by restating 2007 results for impact for 2007.

The following table summarises the significant impacts of above restatements:

	As previously reported AED '000	Restatement AED '000	As restated AED '000
Recognition of income from investing and financing assets			
Consolidated balance sheet			
Investing and Financing asset	**40,376,082**	**158,766**	**40,534,848**
Customer deposits – profit equalisation provision	**(411,319)**	**(158,766)**	**(570,085)**
Consolidated income statement			
Income from Islamic financing and investing Assets	**2,685,939**	**39,060**	**3,724,999**
Depositors' share of profit	**(2,356,014)**	**(39,060)**	**(2,395,074)**
Consolidated statement of changes in equity			
Retained earnings as at 1 January 2007	**43,197**	**-**	**43,197**

Adjustment related to prior years to 2007 amounting to AED 119,706 has been classified to customer deposits profit equalisation provision account.

	As previously reported AED '000	Restatement AED '000	As restated AED '000
Consolidation of an investment fund			
Consolidated balance sheet			
Investment properties	**1,499,303**	**535,595**	**2,034,898**
Other liabilities	**(2,931,200)**	**(462,386)**	**(3,393,586)**
Consolidated income statement			
Income from investment properties	**187,639**	**44,185**	**231,824**
Depreciation of investment properties	**(10,500)**	**(17,529)**	**(28,029)**

57 COMPARATIVE INFORMATION

Certain other comparative amounts have been reclassified to conform to the presentation adopted during the current year.

58 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 25 February 2009.