EMIRATES NBD PJSC

GROUP CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

EMIRATES NBD PJSC

GROUP CONSOLIDATED FINANCIAL STATEMENTS

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Independent auditors' report

The Shareholders
Emirates NBD PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Emirates NBD PJSC ("the Company") and its subsidiaries (collectively referred to as 'the Group') 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.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company, Federal Law No. 8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the articles of association of the Company; proper books of account have been kept by the Company and its subsidiaries; and the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Company, Federal Law No 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

KPMG

Ernst & Young

Name	:	Vijendra Nath Malhotra	Edward B Quinlan
Registration No	:	48 B	93

KPMG
Dubai
United Arab Emirates
12 FEB 2009

Ernst & Young
Dubai
United Arab Emirates
12 FEB 2009

EMIRATES NBD PJSC

GROUP CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	2008 AED 000	2007 AED 000
ASSETS			
Cash and deposits with Central Bank	3	16,707,194	29,226,054
Due from banks	4	8,128,342	12,800,902
Loans and receivables	5	188,006,789	151,952,233
Islamic financing and investment products	6	20,923,373	14,471,737
Trading securities	7	244,445	3,543,999
Investment securities	8	19,390,801	20,055,443
Investments in associates and joint ventures	9	2,924,808	2,712,372
Investment properties	10	796,107	482,472
Property and equipment	11	2,792,618	1,982,687
Goodwill and Intangibles	12 & 13	6,139,331	6,178,627
Positive fair value of derivatives	36	6,323,494	3,756,345
Customer acceptances	40	2,860,654	2,851,216
Other assets	14	7,175,720	3,801,556
TOTAL ASSETS		282,413,676	253,815,643
LIABILITIES			
Customer deposits	15	139,979,804	126,134,743
Islamic customer deposits	16	22,335,137	14,541,970
Due to banks	17	48,425,638	46,553,648
Repurchase agreements with banks	18	3,260,419	5,610,043
Debt issued and other borrowed funds	19	28,802,830	25,406,321
Sukuk payable	20	1,267,185	1,267,185
Negative fair value of derivatives	36	5,754,467	2,750,833
Customer acceptances	40	2,860,654	2,851,216
Other liabilities	21	3,965,621	3,540,910
TOTAL LIABILITIES		256,651,755	228,656,869
EQUITY			
Issued capital	22	5,052,523	4,393,498
Treasury shares	22	(46,175)	(46,175)
Share premium reserve	22	12,270,124	12,270,124
Legal and statutory reserve	23	1,629,205	1,260,205
Other reserves	23	3,324,385	3,917,410
Cumulative changes in fair value	24	(757,979)	863,890
Retained earnings		4,193,062	2,497,919
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		25,665,145	25,156,871
Minority interests		96,776	1,903
TOTAL EQUITY		25,761,921	25,158,774
TOTAL LIABILITIES AND EQUITY		282,413,676	253,815,643

The notes set out on pages 7 to 98 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 1.

Chairman　　　　Director　　　　Chief Executive Office

12 FEB 2009

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 AED 000	2007 AED 000
Interest income	25	11,155,912	7,321,838
Interest expense	25	(5,746,922)	(4,727,749)
Net interest income		5,408,990	2,594,089
Income from Islamic financing and investment products	26	1,180,257	641,020
Distribution to depositors and profit paid to Sukuk holders	27	(755,436)	(454,702)
Net income from Islamic financing and investment products		424,821	186,318
Net interest income and income from Islamic financing and investment products net of distribution to depositors		5,833,811	2,780,407
Fee and commission income		2,997,620	1,453,355
Fee and commission expense		(751,280)	(422,014)
Net fee and commission income	28	2,246,340	1,031,341
Net (loss)/gain on trading securities	29	(136,370)	286,250
Other operating income	30	502,935	861,339
Total operating income		8,446,716	4,959,337
General and administrative expenses	31	(3,355,662)	(1,927,308)
Net impairment loss on financial assets	32	(1,652,536)	(617,655)
Total operating expenses		(5,008,198)	(2,544,963)
Operating profit		3,438,518	2,414,374
Amortisation of intangibles	13	(95,860)	(19,015)
Share of profit of associates and joint ventures	9	338,575	375,549
Group profit for the year		3,681,233	2,770,908
Attributable to:			
Equity holders of the Group		3,680,517	2,770,527
Minority interests		716	381
Group profit for the year		3,681,233	2,770,908

		2008 AED	2007 AED
Earnings per share	35	0.73	0.55

The notes set out on pages 7 to 98 form part of these Group consolidated financial statements.
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GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 AED 000	2007 AED 000
OPERATING ACTIVITIES		
Group profit for the year	3,681,233	2,770,908
Adjustment for non cash items		
Impairment allowances on loans and receivables	1,495,988	649,630
Impairment allowances on Islamic financing and investment products	68,547	73,728
Impairment allowances on investment securities	255,980	-
Impairment of goodwill	-	4,903
Amortisation of intangibles	95,860	19,015
Depreciation of property and equipment	196,718	114,255
Share of profit of associates and joint ventures	(338,575)	(375,549)
Operating profit before changes in operating assets and liabilities	5,455,751	3,256,890
Increase in statutory deposits	(3,176,954)	(4,473,999)
Decrease in amounts due from banks maturing after 3 months	55,359	4,396,167
Increase/(decrease) in amounts due to banks maturing after 3 months	18,545,284	(16,344,188)
Net change in other liabilities/other assets	(2,962,152)	28,303
Net change in fair value of derivatives	624,922	(916,012)
Increase in customer deposits	21,638,228	29,455,305
Increase in loans and receivables	(37,607,108)	(35,480,821)
Increase in Islamic financing and investment products	(6,520,183)	(7,987,155)
Net cash flows from/(used in) operating activities	(3,946,853)	(28,065,510)
INVESTING ACTIVITIES		
Decrease in trading and investment securities (net of fair value movements)	1,897,911	7,814,662
Decrease/(increase) in investments in associates and joint ventures	108,056	(40,116)
Increase in investment properties (net)	(313,635)	(86,395)
Sale of investment in joint venture	18,083	-
Cash on acquisition	-	7,652,229
Acquisition of subsidiaries	-	(118,310)
Additions to property and equipment (net)	(1,006,649)	(694,603)
Net cash flows from investing activities	703,766	14,527,467
FINANCING ACTIVITIES		
Decrease in deposits under repurchase agreements	(2,349,624)	-
Increase in medium term borrowing (net)	3,396,509	8,490,941
Increase in sukuk borrowings	-	1,267,185
Increase in minority interests	94,205	-
Increase in share capital	-	300
Dividends paid	(1,537,724)	(699,569)
Net cash flows (used in)/from financing activities	(396,634)	9,058,857
(Decrease) in cash and cash equivalents [refer note 44]	(3,639,721)	(4,479,186)

The notes set out on pages 7 to 98 form part of these Group consolidated financial statements.
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EMIRATES NBD PJSC

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP									
	Issued capital AED 000	Treasury shares AED 000	Share premium reserve AED 000	Legal and Statutory reserve [refer note 23] AED 000	Other reserves [refer note 23] AED 000	Cumulative changes in fair value [refer note 24] AED 000	Retained earnings AED 000	Total AED 000	Minority interests AED 000	Group Total AED 000
Balance as at 1 January 2007	2,331,896	-	-	982,205	4,294,484	343,285	924,611	8,876,481	1,522	8,878,003
Income and expense recognised directly in equity for available-for-sale investment securities	-	-	-	-	-	389,058	-	389,058	-	389,058
Income and expense recognised directly in equity for cash flow hedges	-	-	-	-	-	131,547	-	131,547	-	131,547
Group profit for the year	-	-	-	-	-	-	2,770,527	2,770,527	381	2,770,908
Total income and expense for the year	-	-	-	-	-	520,605	2,770,527	3,291,132	381	3,291,513
Dividends paid	-	-	-	-	-	-	(699,569)	(699,569)	-	(699,569)
Issuance of bonus shares	582,974	-	-	-	(582,974)	-	-	-	-	-
Increase in share capital	300	-	-	-	-	-	-	300	-	300
Issuance of new shares on acquisition of NBD	1,478,328	-	12,270,124	-	-	-	-	13,748,452	-	13,748,452
Treasury stock arising from reverse acquisition	-	(46,175)	-	-	-	-	-	(46,175)	-	(46,175)
Transfer to reserves [refer note 23]	-	-	-	278,000	205,900	-	(483,900)	-	-	-
Directors' fees [refer note 33]	-	-	-	-	-	-	(13,750)	(13,750)	-	(13,750)
Balance as at 31 December 2007	4,393,498	(46,175)	12,270,124	1,260,205	3,917,410	863,890	2,497,919	25,156,871	1,903	25,158,774

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

The notes set out on pages 7 to 98 form part of these Group consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on page 1.

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP									
	Issued capital AED 000	Treasury shares AED 000	Share premium reserve AED 000	Legal and Statutory reserve [refer note 23] AED 000	Other reserves [refer note 23] AED 000	Cumulative changes in fair value [refer note 24] AED 000	Retained earnings AED 000	Total AED 000	Minority interests AED 000	Group Total AED 000
Balance as at 1 January 2008	4,393,498	(46,175)	12,270,124	1,260,205	3,917,410	863,890	2,497,919	25,156,871	1,903	25,158,774
Income and expense recognised directly in equity for available-for-sale investment securities	-	-	-	-	-	(1,810,306)	-	(1,810,306)	(48)	(1,810,354)
Income and expense recognised directly in equity for cash flow hedges	-	-	-	-	-	188,437	-	188,437	-	188,437
Group profit for the year	-	-	-	-	-	-	3,680,517	3,680,517	716	3,681,233
Total income and expense for the year	-	-	-	-	-	(1,621,869)	3,680,517	2,058,648	668	2,059,316
Dividends paid	-	-	-	-	-	-	(1,537,724)	(1,537,724)	-	(1,537,724)
Issuance of bonus shares	659,025	-	-	-	(659,025)	-	-	-	-	-
Investment in subsidiaries	-	-	-	-	-	-	-	-	94,205	94,205
Transfer to reserves [refer note 23]	-	-	-	369,000	66,000	-	(435,000)	-	-	-
Directors' fees [refer note 33]	-	-	-	-	-	-	(12,650)	(12,650)	-	(12,650)
Balance as at 31 December 2008	5,052,523	(46,175)	12,270,124	1,629,205	3,324,385	(757,979)	4,193,062	25,665,145	96,776	25,761,921

In accordance with the Ministry of Economy and Planning interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.
The notes set out on pages 7 to 98 form part of these Group consolidated financial statements.
The independent auditors' report on the Group consolidated financial statements is set out on page 1.

1 LEGAL STATUS AND ACTIVITIES

Emirates NBD PJSC, ("ENBD" or the "Company") was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Company was incorporated principally to give effect to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"). The Company acts as holding company of both EBI and NBD (together referred to as the "Group"). The merger became effective from 16 October 2007.

The ultimate parent company of the Group is Investment Corporation of Dubai.

The Company is listed on the Dubai Financial Market. The Company's principal business activity is investment holding. For details of activities of subsidiaries, refer to note 39.

The financial statements have been prepared according to IFRS 3 Business Combinations. IFRS 3 requires that an acquirer be identified in any business combination and acquisition accounting principles be applied. EBI was identified as the "deemed acquirer" in this transaction. The principles of reverse acquisition were used to reflect the acquisition of EBI by ENBD. No adjustments were made to the fair values of EBI's assets and liabilities in the consolidated balance sheet. The results for the year ended 31 December 2007 include the full year results of EBI and its subsidiaries and the period between 16 October 2007 to 31 December 2007 for NBD and its subsidiaries.

The registered address of the Company is Post Box 2923, Dubai, United Arab Emirates ("UAE").

These Group consolidated financial statements have been approved for issue by the Board of Directors on 12 February 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance:

The Group 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.

The principal accounting policies adopted in the preparation of these Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- Recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged;
- Liabilities for cash settled share based payments are measured at fair value; and
- Investment properties are measured at fair value.

These consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 2 (e).

(c) Changes in accounting policies:

In October 2008 the IASB issued amended statements relating to the reclassification of Financial Assets (Amendments to IAS 39 Financial instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category or the available-for-sale category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- A financial asset may be transferred to the loans and receivables category if the financial asset meets the definition of loans and receivables at the redesignation date and if the entity has the intention and ability to hold the financial asset for the foreseeable future.
- A financial asset may be transferred out of the trading category to the available-for-sale category only in 'rare circumstances'.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments can be applied effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading securities and into available-for-sale investment securities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are the entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. A subsidiary is excluded from consolidation from the date control ceases.

Subsidiaries are consolidated on a line-by-line basis and the minority interest's share in the results for the year and for their share of the net assets of the subsidiaries are accounted for separately. The effects of intra group transactions are eliminated in preparing the Group consolidated financial statements.

(ii) Associates

Associates are the entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are stated on an equity basis at cost plus Group's share of the associate's net assets post acquisition. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any such changes and discloses this, where applicable, in the statement of changes in equity.

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

(iii) Joint venture

The Group has an interest in a joint venture which was a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognises its interest in joint ventures using the equity method of accounting.

Under the equity method, the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. The income statement reflects the share of the results of operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any such changes and discloses this, when applicable, in the statement of changes in equity.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Use of estimates

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Significant items, where the use of estimates and judgments are required, are outlined below:

(i) Allowances for impairment of loans and receivables, Islamic financing and investment products

The Group reviews its loans and receivables portfolio, Islamic financing and investment products to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing and investment products. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

In addition to specific allowance against individually significant loans and receivables and Islamic financing and investing assets, the Group also makes a collective impairment allowance to recognise that at any balance sheet date, there will be an amount of loans and receivables, Islamic financing and investment products which are impaired even through a specific trigger point for recognition of the loss has not yet occurred (known as the “emergence period’). This collective allowance considers deterioration in the internal rating of the loan 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.

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Impairment of available-for-sale investment securities

The Group determines the impairment of available-for-sale investment securities when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates several market and non market factors.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Use of estimates – (continued)

(iv) Held-to-maturity investment securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for specific circumstances, such as selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale and the Group will be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

(f) Revenue recognition

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

Commission and fee income is accounted for on an accrual basis. Dividend income is recognised when the Group's right to receive the dividend is established. Recoveries in respect of loans and receivables that have been identified as fully impaired are accounted for on a cash receipt basis.

(g) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(h) Financial instruments

(i) Classification

- Trading securities:

  Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the year in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Classification (continued)

- Investment securities:

(1) Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

Held-to-maturity ("HTM") investments are carried at amortised cost (less impairment, if any).

Sale of HTM investments is allowed only under the following circumstances:

- The investment is close enough to maturity as to have no impact on fair value;
- The principal is substantially received;
- Isolated events beyond the Group's control;
- Significant credit deterioration;
- Major business combination or disposal; or
- Increase in regulatory capital requirements.

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices.

Available-for-sale (AFS) financial assets may be freely sold or hedged. All AFS financial assets are measured at fair value. The differences between cost and fair value are taken to equity and recognised as a separate component in the balance sheet, except in the case of impairment where the cumulative loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to equity, is transferred to the income statement.

(3) Designated at fair value through profit or loss

The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- Originated loans and syndicated loans funded on origination;
- Loans acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

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(ii) Recognition

Financial assets and liabilities are recognised on the balance sheet when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated at fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(vi) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account the current creditworthiness of the counterparties.

(vii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

(viii) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

Loans and receivables are presented net of allowances for impairment. The recoverable amount of individually significant loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted. Impairment allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amounts. Collective impairment allowances are maintained to reduce the carrying amount of groups of homogenous loans and receivables to their estimated recoverable amounts at the balance sheet date. Increases in the impairment allowances are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(viii) Impairment (continued)

In the case of an investment security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale investment security, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment security previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity investment securities are not reversed through the income statement.

If in a subsequent period, the fair value of an available-for-sale debt instrument increases which can be linked objectively to an event occurring after the write down, the write-down or impairment allowance is reversed through the income statement.

(i) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the balance sheet date, and the resulting gains and losses are taken to the Group consolidated income statement. Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to other reserves (exchange retranslation differences).

(j) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. Freehold buildings (other than those held as investment and development properties) are depreciated on a straight-line basis over a maximum period of twenty to twenty five years.

Leasehold premises are amortised over their respective lease periods. Other assets are depreciated on a straight-line basis over their estimated useful lives, principally between three and ten years.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group’s policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income taxes and deferred taxation

Income tax payable on taxable profits, based on the applicable tax laws in each overseas jurisdiction where the Group operates, is recognised as an expense in the period in which such taxable profits arise.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

(l) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in 'Other operating income' in the year in which they arise.

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

(m) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees are made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year.

(iii) Employees long term incentive plan (“LTIP”)

With effect from 1 April 2006, the Group has introduced two Long Term Incentive Plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

The fair value of the amount payable to employees in respect of LTI units which are settled in cash is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The amount recognised as an expense is adjusted to reflect the actual number of LTI units that vest. The liability is re measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff-related expense in the Group consolidated income statement.

(o) Hedging instruments

Hedging instruments include futures, forwards and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rates and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments [refer note 2 (e) (ii)].

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Hedging Instruments (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with Central Bank and balances with banks and financial institutions with an original maturity of three months or less, less balances due to banks and financial institutions with an original maturity of three months or less.

(q) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Group consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(r) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(s) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

(t) Leases

The total payments made under operating leases, such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

(u) Islamic financing and investment products

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Islamic financing and investment products (continued)

(i) Definitions (continued)

Istissna'a

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

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rub-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; The Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rub-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

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

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istissna'a

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Revenue recognition (continued)

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

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

(v) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Capitalised Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to five years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Intangible assets (continued)

(iii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite of indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangibles.

(w) Impairment of non financial assets

The carrying amounts of the Group’s non-financial assets, other than investment properties and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) New standards and interpretations not yet effective

Certain new standards and interpretations which are not yet effective for the year ended 31 December 2008 and therefore have not been applied in preparing these financial statements are as follows:

- IFRS 8 - Operating Segments: This standard introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Management in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments [refer note no 38 and 42].

- IFRIC 13 - Customer Loyalty Programmes: addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

- IAS 1 - Presentation of Financial Statements (Revised): The application of this standard will result in amendments to the presentation of the Group's 2009 financial statements.

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

Other new standards, revisions and interpretations have no material impact on the financial statements of the Group.

3 CASH AND DEPOSITS WITH CENTRAL BANK

	2008 AED 000	2007 AED 000
Cash	1,780,638	1,493,275
Interest free statutory and special deposits with Central Bank	10,401,849	11,834,779
Interest bearing certificates of deposit with Central Bank	4,524,707	15,898,000
	16,707,194	29,226,054

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

4 DUE FROM BANKS

31 December 2008	Local AED 000	Foreign AED 000	Total AED 000
Time loans	250,740	3,191,520	3,442,260
Overnight, call and short notice	71,987	4,628,095	4,700,082
Gross due from banks	322,727	7,819,615	8,142,342
Specific allowances for impairment	-	(14,000)	(14,000)
	322,727	7,805,615	8,128,342

31 December 2007	Local AED 000	Foreign AED 000	Total AED 000
Time loans	1,014,504	7,608,983	8,623,487
Overnight, call and short notice	264,861	3,954,554	4,219,415
Gross due from banks	1,279,365	11,563,537	12,842,902
Specific allowances for impairment	-	(42,000)	(42,000)
	1,279,365	11,521,537	12,800,902

The average yield on these placements was 2.9% p.a. (2007 - 4.5% p.a.).

5 LOANS AND RECEIVABLES

(a) By type

	2008 AED 000	2007 AED 000
Overdrafts	59,438,355	46,911,129
Time loans	119,039,605	93,962,781
Loans against trust receipts	5,508,583	4,168,196
Bills discounted	2,014,525	1,875,634
Others	2,744,403	2,162,021
Gross loans and receivables	188,745,471	149,079,761
Other debt instruments	2,373,788	4,686,528
Total loans and receivables	191,119,259	153,766,289
Less: Allowances for impairment	(3,112,470)	(1,814,056)
	188,006,789	151,952,233

Total of classified advances on which interest is not taken into income amounted to	3,084,995	1,594,761

Included in loans and receivables are other debt securities of AED Nil (2007 – AED 810 million) that have been pledged under repurchase agreements [refer note 18].

(b) By segment

	2008 AED 000	2007 AED 000
Corporate	161,157,992	128,632,378
Retail	25,452,035	18,309,588
Treasury	1,396,762	5,010,267
	188,006,789	151,952,233

5 LOANS AND RECEIVABLES (continued)

Allowances for impairment

	2008 AED 000	2007 AED 000
Movement in allowances for specific impairment		
Balance as at 1 January	1,454,516	628,899
Increase on acquisition of NBD	-	273,728
Allowances for impairment made during the year	1,284,655	622,630
Recoveries made during the year	(121,568)	(49,622)
Amounts written off during the year	(76,006)	(21,119)
Balance as at 31 December	2,541,597	1,454,516
Movement in allowances for collective impairment		
Balance as at 1 January	359,540	178,065
Increase on acquisition of NBD	-	154,475
Allowances for impairment made during the year	211,333	27,000
Balance as at 31 December	570,873	359,540
	3,112,470	1,814,056

6 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2008 AED 000	2007 AED 000
Murabaha	7,151,783	5,403,504
Ijara	5,254,283	2,852,375
Sukuk funds	1,285,550	1,285,550
Credit cards receivables	471,789	292,089
Wakala	4,403,500	3,576,688
Istissna'a	1,486,386	739,659
Others	1,929,316	1,025,214
Total Islamic financing and investment products	21,982,607	15,175,079
Less: Deferred income	(857,914)	(545,594)
Less: Allowances for impairment	(201,320)	(157,748)
	20,923,373	14,471,737

<u>Movement in allowances for impairment</u>	2008 AED 000	2007 AED 000
Balance as at 1 January	157,748	94,113
Impairment allowances made during the year	68,547	73,728
Recoveries made during the year	(24,317)	(10,093)
Amount written off during the year	(658)	-
Balance as at 31 December	201,320	157,748

7 TRADING SECURITIES

31 December 2008	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Equity	27,006	-	-	27,006
Others	134,271	-	83,168	217,439
	161,277	-	83,168	244,445

31 December 2007	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
Equity	503,993	141,505	2,085	647,583
Hybrid instruments	426,417	-	104,087	530,504
Others	1,096,451	107,465	1,161,996	2,365,912
	2,026,861	248,970	1,268,168	3,543,999

Reclassifications out of trading securities

Pursuant to the amendments to IAS 39 and IFRS 7 (described in note 2(c)), the Group reclassified certain trading securities to available-for-sale investment securities. The Group identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of selling in the short term. The Group determined that the context of the deterioration of the financial markets during the second half of 2008 constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. In addition, some trading securities purchased after 1 July 2008 were subsequently identified for reclassification. The table below sets out the trading securities reclassified and their carrying and fair values.

	1 July 2008 AED 000		31 December 2008 AED 000	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to available-for-sale investment securities	993,491	993,491	1,025,804	1,025,804
	993,491	993,491	1,025,804	1,025,804

7 TRADING SECURITIES (continued)

The table below sets out the amounts recognised in the income statement and equity during 2008 in respect of financial assets reclassified out of trading securities into available-for-sale investment securities:

	Income statement AED 000	Equity AED 000
Period before reclassification		
Net trading loss	(16,661)	-
	(16,661)	-
Period after reclassification		
Interest income	5,679	-
Net change in fair value	-	(262,835)
	5,679	(262,835)

Net trading income for 2007 included net gains of AED 7.2 million for trading securities reclassified to available-for-sale investment securities.

The table below sets out the amounts that would have been recognised during 2008, had the reclassifications not been made:

	2008 AED 000
Net trading loss	(273,817)

At 1 July 2008, the effective interest rates on trading securities reclassified to available-for-sale investment securities ranged from 1.8 % to 6.7%.

The reclassification of trading securities had the effect of increasing both basic and diluted earnings per share for 2008 by AED 0.05.

8 INVESTMENT SECURITIES

31 December 2008	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	100,076	-	31,734	131,810
Corporate bonds	182,607	212,667	105,801	501,075
	282,683	212,667	137,535	632,885
AVAILABLE-FOR-SALE:				
Government bonds	593,480	79,431	614,866	1,287,777
Corporate bonds	4,085,288	643,458	5,752,750	10,481,496
Equity	557,741	1,432,251	1,501,020	3,491,012
Others	113,167	43,064	451,311	607,542
	5,349,676	2,198,204	8,319,947	15,867,827
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Government bonds	19,331	-	-	19,331
Corporate bonds	89,174	-	-	89,174
Equity	156,651	169,539	38,645	364,835
Hybrid instruments	183,650	-	28,149	211,799
Others	965,069	94,318	1,145,563	2,204,950
	1,413,875	263,857	1,212,357	2,890,089
	7,046,234	2,674,728	9,669,839	19,390,801

8 INVESTMENT SECURITIES (continued)

31 December 2007	Domestic AED 000	Regional AED 000	International AED 000	Total AED 000
HELD TO MATURITY:				
Government bonds	174,129	-	61,106	235,235
Corporate bonds	328,874	314,995	155,458	799,327
	503,003	314,995	216,564	1,034,562
AVAILABLE-FOR-SALE:				
Government bonds	75,833	359,705	1,016,422	1,451,960
Corporate bonds	3,184,146	695,700	9,381,102	13,260,948
Equity	642,266	752,270	593,998	1,988,534
Others	65,616	44,249	433,997	543,862
	3,967,861	1,851,924	11,425,519	17,245,304
DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:				
Government bonds	19,265	73,811	-	93,076
Corporate bonds	61,839	14,335	51,031	127,205
Hybrid instruments	-	-	103,919	103,919
Others	150,672	83,901	1,216,804	1,451,377
	231,776	172,047	1,371,754	1,775,577
	4,702,640	2,338,966	13,013,837	20,055,443

Investment securities include investments in real estate funds as follows:

	2008 AED 000	2007 AED 000
Designated at fair value through profit or loss	420,939	14,577
Available-for-sale	188,530	163,370
	609,469	177,947

Included in available-for-sale investment securities is an amount of AED 3,260 million (2007 – AED 4,800 million), pledged under repurchase agreements with banks [refer note 18].

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	2008 AED 000	2007 AED 000
Investments in associates	2,924,658	2,694,289
Investments in joint ventures	150	18,083
Total	2,924,808	2,712,372

<u>Movement in investments in associates:</u>

Movements in the carrying values of investments in associates during the year are as follows:

	2008 AED 000	2007 AED 000
Balance as at 1 January	2,694,289	2,296,707
Increase on acquisition of NBD	-	21,753
Share of profits	338,575	375,829
Sale of investments	(90,338)	-
Dividends	(17,868)	-
Balance as at 31 December	2,924,658	2,694,289

Aggregated financial information of the material associates is Assets of AED 19,775million (2007: AED 11,625 million), Liabilities of AED 13,519 million (2007: AED 6,080 million), Revenue of AED 3,660 million (2007: AED 3,033 million) and Profit of AED 783 million (2007: AED 794 million). At the Board approval date, equity accounting was applied using management information available at the time. Subsequent changes are not considered material.

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

On 5 May 2008, the Group completed sale of its investment in a joint venture, Mena Factors Limited, for a total consideration of AED 19.3 million. A profit of AED 0.6 million, being the proceeds received on sale less the carrying value of the investment was recognised.

On 23 November 2008, Network International LLC ("NI"), a subsidiary of the Group, set up Obernet L.L.C., a joint venture with Oberthur Cards Systems. NI holds 51% of the share capital and exercises joint control of the management of the company.

Movements in investments in joint ventures

Movements in the carrying values of investments in joint ventures during the year are as follows:

	2008 AED 000	2007 AED 000
Balance as at 1 January	18,083	-
Increase on acquisition of NBD	-	18,363
Sale of joint venture	(18,083)	-
Setup of a joint venture	150	-
Share of loss of investment in joint venture	-	(280)
Balance as at 31 December	150	18,083

10 INVESTMENT PROPERTIES

The movement in investment properties during the year are as follows:

	2008 AED 000	2007 AED 000
Balance as at 1 January	482,472	269,025
Increase on acquisition of NBD	-	220,000
Additions	254,740	25,120
Sale of investment properties	(4,831)	(24,367)
Fair value revaluation gain	63,726	-
Depreciation	-	(7,306)
Balance as at 31 December	796,107	482,472

	2008 AED 000	2007 AED 000
Investment properties at 31 December consist of:		
Freehold land and buildings	796,107	482,472

10 INVESTMENT PROPERTIES (continued)

Emirates Islamic Bank:

The fair value of Emirates Islamic Bank's investment properties as at 31 December 2008 is AED 576 million (2007 – AED 301 million) as per valuations conducted by independent valuers and the Group's real estate division.

Others:

The fair value of freehold land which was acquired on business combination in 2007 was AED 220 million as per valuation conducted by independent valuers.

11 PROPERTY AND EQUIPMENT

	Freehold land and property AED 000	Leasehold premises AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2008	918,042	156,345	553,136	771,087	2,398,610
Additions	131,027	16,407	98,959	760,332	1,006,725
Transfers	-	41,187	26,638	(67,825)	-
Disposals	(95)	(1,649)	(17,920)	-	(19,664)
As at 31 December 2008	1,048,974	212,290	660,813	1,463,594	3,385,671
ACCUMULATED DEPRECIATION					
As at 1 January 2008	71,906	63,328	280,689	-	415,923
Charge for the year	37,449	40,346	118,923	-	196,718
Disposals	(95)	(1,649)	(17,844)	-	(19,588)
As at 31 December 2008	109,260	102,025	381,768	-	593,053
Net book value as at 31 December 2008	939,714	110,265	279,045	1,463,594	2,792,618

11 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property AED 000	Leasehold premises AED 000	Others AED 000	Fixed assets not commissioned AED 000	Total AED 000
COST					
As at 1 January 2007	198,876	90,067	343,701	129,399	762,043
Additions	652	13,265	96,311	685,433	795,661
Assets acquired on business combination	719,556	26,912	107,499	10,351	864,318
Transfers	-	27,314	26,782	(54,096)	-
Disposals	(1,042)	(1,213)	(21,157)	-	(23,412)
As at 31 December 2007	918,042	156,345	553,136	771,087	2,398,610
ACCUMULATED DEPRECIATION					
As at 1 January 2007	65,037	37,164	221,463	-	323,664
Charge for the year	7,911	26,462	79,882	-	114,255
Disposals	(1,042)	(298)	(20,656)	-	(21,996)
As at 31 December 2007	71,906	63,328	280,689	-	415,923
Net book value as at 31 December 2007	846,136	93,017	272,447	771,087	1,982,687

Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not ready for use.

12 BUSINESS COMBINATIONS

As stated in Note 1, Emirates NBD was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Company was created to effect the merger between EBI and NBD. Emirates NBD acquired the share capital of EBI and NBD in exchange for the new shares in Emirates NBD with the following exchange ratio:

- 1 share in EBI for 1 new share in Emirates NBD.

- 1 share in NBD for 0.95 new shares in Emirates NBD.

The merger was completed on 16 October 2007 with 99.11% and 97.63% shareholders of EBI and NBD respectively exchanging their shareholding in respective banks with new shares issued by Emirates NBD. Subsequently, on the same date, both EBI and NBD’s shares were delisted for trading from the Dubai Financial Market (“DFM”) and Emirates NBD’s shares were listed on the DFM.

Emirates NBD subsequently received requisite approval from Emirates Securities and Commodities Authority (“ESCA”) to automatically exchange the shares of EBI and NBD for new shares of Emirates NBD for the remaining shareholders whose acceptance could not be obtained due to lack of response. As at 31 December 2007, EBI and NBD became wholly owned subsidiaries of Emirates NBD.

Under IFRS 3 - Business Combinations, EBI has been identified as the “deemed acquirer” for the purposes of accounting under the purchase accounting method.

The goodwill and intangibles arising out of the acquisition were finalized during 2008 within the timelines as specified under IFRS 3- Business Combinations based on the completion of the purchase price allocation exercise.

In 2007, certain fair values were determined on a provisional basis.

12 BUSINESS COMBINATIONS (continued)

The fair values of the identifiable assets and liabilities of NBD acquired by the Group are as follows:

Assets:	Fair value recognised on acquisition AED 000	Carrying value AED 000
Cash and balances with Central Bank	7,652,229	7,652,229
Due from banks	5,660,775	5,660,775
Securities	18,097,473	18,097,473
Loans and receivables	57,842,834	57,485,231
Investment properties	220,000	157,136
Fixed assets	864,318	364,752
Other assets	1,396,275	1,396,275
Total assets acquired	91,733,904	90,813,871
Liabilities:		
Due to banks	11,630,074	11,630,074
Customer deposits	61,288,982	61,262,683
Debt issued and other borrowed funds	10,087,276	10,145,912
Other liabilities	1,081,628	1,081,628
Total liabilities acquired	84,087,960	84,120,297
Fair value of net assets acquired by the Group:	7,645,944	
Goodwill arising on acquisition	5,439,378	
Intangibles arising on acquisition	722,250	
Total acquisition cost	13,807,572	

The total acquisition cost of AED 13,807 million comprised of 1,478,328,029 shares issued by ENBD amounting to AED 13,748 million and costs of AED 59 million directly attributable to the acquisition.

12 BUSINESS COMBINATIONS (continued)

The acquisition cost has been calculated on the basis of EBI's closing price of AED 9.30 per share on the DFM on 7 October 2007, being the last traded day prior to the suspension from trading.

Cash inflow on acquisition:

	AED 000
Values of shares issued on acquisition	13,748,452
Acquisition costs	59,120
Net assets acquired on business combination (excluding cash)	(6,155,343)
Net cash inflow	7,652,229

The Group has recognised the fair value of assets, liabilities and contingent liabilities acquired through the acquisition of NBD and has performed an impairment test on goodwill. The goodwill is attributable to the synergies expected to arise from the business combination. The intangibles are attributable mainly to core deposit intangibles ("CDI") and customer relationships.

Other Subsidiary transactions

(i) Sale of AbAcAs

On 31 July 2008, the Group sold its investment by way of capital notes in AbAcAs, an SIV registered in the Cayman Islands. The Group realised a gain of AED 5.7 million on the sale. Subsequent to this redemption, the income statement and balance sheet of AbAcAs is not being consolidated as part of these financial statements as the Group no longer exercises management control.

(ii) Acquisition of Ithmar

On 9 June 2008, Emirates Islamic Bank PJSC ("EIB"), a subsidiary of the Group, set up and subscribed to a 40% stake in Ithmar Real Estate Development PSC ('Ithmar'), a company engaged in real estate development, for a consideration of AED 62 million. Ithmar is being consolidated with the Group's financial statements under IAS 27 'Consolidated and Separate Financial Statements' (as the Group has the majority of the votes in the Board of Directors, which signifies management control).

(iii) Acquisition of Sana Capital Limited

On 6 February 2008, NBD Investment Bank Limited, a subsidiary of the Group, set up and subscribed to a 56.2% stake in NBD Sana Capital Limited, a DIFC registered company engaged in Private Equity management, for an initial cash consideration of AED 1.5 million.

The Group has adopted the fair value method of accounting in respect of these acquisitions as permitted by IFRS 3 – Business combinations.

13 GOODWILL AND INTANGIBLES

	Goodwill	Intangibles			Total
		Software	Customer relationships	Core deposit intangibles	
31 December 2008	AED 000	AED 000	AED 000	AED 000	AED 000
Cost					
Balance as at 1 January	5,471,014	9,281	564,760	157,490	6,202,545
Reassessment of fair value	56,564	-	-	-	56,564
Balance as at 31 December	5,527,578	9,281	564,760	157,490	6,259,109
Amortisation and impairment					
Balance as at 1 January	4,903	2,015	12,000	5,000	23,918
Amortisation and impairment for the period	-	1,860	62,000	32,000	95,860
Balance as at 31 December	4,903	3,875	74,000	37,000	119,778
NET	5,522,675	5,406	490,760	120,490	6,139,331
31 December 2007					
Cost	5,471,014	9,281	564,760	157,490	6,202,545
Amortisation and impairment	4,903	2,015	12,000	5,000	23,918
NET	5,466,111	7,266	552,760	152,490	6,178,627

Goodwill impairment

In 2007, the Group has assessed the future expected cash flows of Emirates Loyalty Company LLC (ELCO) and has concluded that it will be unable for the business to show positive cash flows without the infusion of fresh capital. Since IAS 36 states that the existence of goodwill should not include future restructurings, the goodwill of AED 4.9 million does not pass the goodwill impairment test as laid out in IAS 36.

Due to this, the Group has made an impairment of goodwill for AED 4.9 million in its income statement.

Impairment testing of goodwill

Goodwill acquired through business combinations with indefinite lives has been allocated to three individual cash-generating units, which are also reportable segments, for impairment testing as follows:

- Wholesale Banking
- Consumer and Wealth Management
- Treasury

13 GOODWILL AND INTANGIBLES (continued)

Impairment testing of goodwill (continued)

Key assumptions used in value in use calculations

The recoverable amount of the cash-generating units has been determined based on a value in use calculation, using cash flow projections covering a five-year period.

The following rates are used by the Group:

- Discount rate: At a constant rate of 12.6%
- Projected growth rate:

	2010	2011	2012
	%	%	%
Wholesale Banking	3	4	5
Consumer and Wealth Management	3	4	5
Treasury	200	20	15

The calculation of value in use in the cash-generating units is most sensitive to the following assumptions:

- Interest margins;
- Discount rates;
- Market share during the budget period;
- Projected growth rates used to extrapolate cash flows beyond the budget period;
- Current local Gross Domestic Product (GDP) and
- Local inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Projected growth rate, GDP and local inflation rates

Assumptions are based on published industry research.

Sensitivity to changes in assumptions

Management believes that reasonably possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

13 GOODWILL AND INTANGIBLES (continued)

Intangibles:

Acquired intangibles are recognised at their "fair value". "Fair value" is defined as 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction'.

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- Be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

- Arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangibles are amortised using the straight-line method over the useful life of the asset, which is estimated to be between 5 and 11 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

14 OTHER ASSETS

	2008 AED 000	2007 AED 000
Accrued interest receivable	1,929,138	1,602,943
Cheques awaiting clearance	475,936	523,726
Prepayments and other advances	328,690	541,609
Sundry debtors and other receivables	744,237	618,462
Others	3,697,719	514,816
	7,175,720	3,801,556

Others include foreign exchange split value and arbitrage deals amounting to AED 3,060 million.

15 CUSTOMER DEPOSITS

	2008 AED 000	2007 AED 000
Demand, call and short notice	44,383,076	36,873,611
Time	88,379,690	81,950,117
Savings	5,845,429	4,793,254
Others	1,371,609	2,517,761
	139,979,804	126,134,743

The interest rates paid on the above deposits averaged 2.1% p.a. in 2008 (2007 – 3.3% p.a.).

The Group has received facilities aggregating to AED 11,502 million in October and November 2008 from the Ministry of Finance, United Arab Emirates. These facilities are available for a period of 3 to 5 years, subject to certain conditions to be adhered to during the tenure of the facilities and are payable in lump sum on maturity. The facilities carry an interest rate of US Treasury 5 year notes plus 120 basis points or 4%, which ever is higher, payable on a quarterly basis. These facilities have been fully drawn on as at the year end and are included in the time deposits above.

16 ISLAMIC CUSTOMER DEPOSITS

	2008 AED 000	2007 AED 000
Demand, call and short notice	5,786,147	3,008,053
Time	14,968,507	10,029,961
Savings	1,435,821	1,335,261
Others	144,662	168,695
	22,335,137	14,541,970

The Group has received facilities aggregating to AED 1,082 million in December 2008 from Ministry of Finance, United Arab Emirates. These facilities are available for a period of 3 to 5 years subject to certain conditions to be adhered to during the tenure of the facilities and are payable in lump sum on maturity. The facilities carry a profit rate of US Treasury 5 year notes plus 120 basis points or 4%, which ever is higher, payable on a quarterly basis. These facilities have been fully drawn on as at the year end and are included in the time deposits above.

17 DUE TO BANKS

	2008 AED 000	2007 AED 000
Demand and call deposits	2,073,486	4,044,247
Balances with correspondent banks	99,337	1,826,108
Time and other deposits	46,252,815	40,683,293
	48,425,638	46,553,648

Time and other deposits include an amount of AED 4,441 million (2007 - AED Nil) received from the Central Bank of the UAE against collateral deposits placed with them.

The interest rates paid on the above averaged 2.9 % p.a. (2007 – 4.3% p.a.).

18 REPURCHASE AGREEMENTS WITH BANKS

Deposits under repurchase agreements represent borrowings from banks and are secured by a portfolio of investment securities and loans and receivables as follows:

	2008 AED 000	2007 AED 000
Available-for-sale	3,260,419	4,799,795
Loans and receivables	-	810,248
	3,260,419	5,610,043

19 DEBT ISSUED AND OTHER BORROWED FUNDS

	2008 AED 000	2007 AED 000
Medium term note programme	23,293,330	19,896,821
Syndicated borrowings from banks	5,509,500	5,509,500
	28,802,830	25,406,321

The Group has outstanding medium term borrowings totalling AED 28,803 million (2007 – AED 25,406 million) which will be repaid as follows:

	2008 AED million	2007 AED million
2008	-	695
2009	5,837	4,075
2010	5,929	5,906
2011	2,941	2,985
2012	7,384	7,849
2013	1,408	-
2014	213	247
2016	3,651	3,649
2018	1,440	-
	28,803	25,406

The interest rate paid on the above averaged 3.9% p.a. in 2008 (2007 – 5.6% p.a.).

The medium term note programme includes the subordinated notes issued with the following terms and conditions:

	2008 AED million	2007 AED million
US$500 million 10 non call 5 lower tier II floating rate subordinated notes due 2016	1,836	1,836
US$500 million 10 non call 5 lower tier II floating rate subordinated notes due 2016	1,836	1,836
AED 1000 million 10 non call 5 lower tier II floating rate subordinated notes due 2018	1,000	-
AED 440 million 10 non call 5 lower tier II floating rate subordinated notes due 2018	440	-
	5,112	3,672

19 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

The above liabilities will, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during 2008 and 2007.

20 SUKUK PAYABLE

On 12 June 2007, Emirates Islamic Bank PJSC ("EIB"), a subsidiary of the Group, through a sharia'a compliant Sukuk financing arrangement, raised medium term finance amounting to AED 1,285 million (USD 345 million), which is listed on the London Stock Exchange. An amount of AED 18 million has been adjusted on consolidation.

The terms of the arrangement include the transfer of certain leased assets (Ijara) of EIB, on a Co-ownership basis, to a Sukuk company (EIB Sukuk Company Limited) specially formed for this transaction. The assets are in the control of EIB and shall be continued to be serviced by EIB. The Sukuk certificates are due for maturity on 11 June 2012.

The Issuer (EIB Sukuk Company Limited) will pay the quarterly distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon maturity of this Sukuk, EIB has undertaken to repurchase the assets at the exercise price of USD 350 million.

21 OTHER LIABILITIES

	2008 AED 000	2007 AED 000
Accrued interest payable	1,019,000	1,214,434
Managers' cheques	517,918	655,808
Trade and other payables	658,371	446,574
Staff related liabilities	669,574	622,068
Provision for taxation [refer note 34]	17,215	14,593
Others	1,083,543	587,433
	3,965,621	3,540,910

22 ISSUED CAPITAL

Authorised, issued and fully paid: 5,052,522,477 ordinary shares of AED 1 each (2007: 4,393,497,806 ordinary shares).

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share capital AED 000	Share premium reserve AED 000
Issue of new shares on incorporation (ENBD)	300,000	300	-
Issue of new shares to EBI shareholders (ENBD)	2,914,869,777	2,914,870	-
Issue of new shares on acquisition of NBD (ENBD)	1,478,328,029	1,478,328	12,270,124
As at 31 December 2007 (ENBD)	4,393,497,806	4,393,498	12,270,124
As at 1 January 2008	4,393,497,806	4,393,498	12,270,124
Issue of bonus shares	659,024,671	659,025	-
As at 31 December 2008 (ENBD)	5,052,522,477	5,052,523	12,270,124

- In July 2007, ENBD was incorporated with issued and paid up share capital of 300,000 shares with a nominal value of AED 1 each.
- In October 2007, EBI shareholders exchanged their 2,914,869,777 shares with a nominal value of AED 1 each for 2,914,869,777 shares of AED 1 each in ENBD.
- In October 2007, ENBD issued 1,478,328,029 shares of AED 1 each at a value of AED 9.3 each for 1,556,135,000 shares of AED 1 each in NBD.
- In March 2008, 659,024,671 shares were issued by ENBD pursuant to a bonus issue.

Treasury shares of the Group represent NBD shares held by EBI on 15 October 2007, which were swapped for ENBD shares pursuant to the share swap agreement.

The new shares of ENBD were listed on the Dubai Financial Market on 16 October 2007.

At the forthcoming Annual General Meeting which will be held on 25 March 2009, the Group is proposing a cash dividend of AED 0.20 per share for the year (2007 – AED 0.35) amounting to AED 1,011 million (2007 – AED 1,537 million) and a bonus issue of 10 ordinary shares for every hundred ordinary shares held for the approval of the equity holders.

23 RESERVES

In accordance with the Company's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non -distributable legal and statutory reserve until such time as this reserve equals 50% of the Company's issued capital. A transfer of AED 369 million (2007 – AED 278 million) has been made to the legal reserve in compliance with the provisions of the Company's Articles of Association.10% of the profit is also transferred to a non-distributable regular reserve until such time as this reserve equals 10% of the Company's issued capital.

	Legal and statutory reserve AED 000	Regular reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2008	1,260,205	439,400	3,478,010	5,177,615
Issue of Bonus shares	-	-	(659,025)	(659,025)
Transfer from Group consolidated income statement	369,000	66,000	-	435,000
At 31 December 2008	1,629,205	505,400	2,818,985	4,953,590

Prior year comparatives are shown in the statement of changes in equity.

24 CUMULATIVE CHANGES IN FAIR VALUE

	AFS investment securities AED 000	Cash flow hedges AED 000	Total AED 000
As at 1 January 2007	375,385	(32,100)	343,285
Net unrealised gains on available-for-sale investment securities	281,115	-	281,115
Realised loss on available-for-sale investment securities reclassified to income statement on disposal	112,226	-	112,226
Realised gains on available-for-sale investment securities reclassified to income statement on disposal	(4,283)	-	(4,283)
Net unrealised gains on cash flow hedges	-	131,547	131,547
As at 31 December 2007	764,443	99,447	863,890
Net unrealised losses on available-for-sale investment securities	(1,705,494)	-	(1,705,494)
Realised loss on available-for-sale investment securities reclassified to income statement on disposal	63,970	-	63,970
Realised gains on available-for-sale investment securities reclassified to income statement on disposal	(168,782)	-	(168,782)
Net unrealised gains on cash flow hedges	-	188,437	188,437
As at 31 December 2008	(1,045,863)	287,884	(757,979)

25 NET INTEREST INCOME

	2008 AED 000	2007 AED 000
Interest income		
Loans and receivables to customers	9,242,464	5,596,696
Loans and receivables to banks	799,089	818,544
Other debt securities	128,841	312,458
Available-for-sale investment securities	618,799	412,957
Held to maturity investment securities	21,440	99,622
Trading securities and designated at fair value through profit or loss investment securities	12,774	63,455
Others	332,505	18,106
Total interest income	11,155,912	7,321,838
Interest expense		
Deposits from customers	2,929,262	2,610,338
Borrowings from banks and financial institutions	1,953,018	1,482,144
Borrowings under commercial paper	636,492	505,348
Securities lent and repurchase agreements	30,046	70,926
Others	198,104	58,993
Total interest expense	5,746,922	4,727,749
	5,408,990	2,594,089

Included in various lines under interest income for the year 31 December 2008 is a total of AED 4.2 million accrued on impaired financial assets.

26 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2008 AED 000	2007 AED 000
Murabaha	437,068	330,551
Ijara	350,006	178,198
Istissna'a	69,858	18,130
Sukuk Funds	100,522	88,740
Wakala	181,806	16,456
Others	40,997	8,945
	1,180,257	641,020

27 DISTRIBUTION TO DEPOSITORS AND PROFIT PAID TO SUKUK HOLDERS

	2008 AED 000	2007 AED 000
Distribution to depositors	647,747	412,718
Profit paid to sukuk holders	107,689	41,984
	755,436	454,702

Distribution to depositors represents the share of income between depositors and equity holders' due to depositors of the Group's Islamic banking subsidiary, Emirates Islamic Bank PJSC. The allocation and distribution to depositors was approved by the Islamic Bank's Fatwa and Sharia'a Supervisory Board.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the Sukuk Company.

28 NET FEE AND COMMISSION INCOME

	2008 AED 000	2007 AED 000
Fee and commission income [refer note below]	2,526,313	1,250,256
Brokerage fees	51,167	74,258
Portfolio and other management fees	420,140	128,841
Total fee and commission income	2,997,620	1,453,355
Fee and commission expense	(751,280)	(422,014)
	2,246,340	1,031,341

Fee and commission income includes:

	2008 AED 000	2007 AED 000
Commission on trade finance products / services	614,091	235,641
Fee income	1,452,850	749,631
Commission on card related acquiring business	459,372	264,984
	2,526,313	1,250,256

29 NET (LOSS)/GAIN ON TRADING SECURITIES

	2008 AED 000	2007 AED 000
Realised (loss)/gain on trading securities	(734)	98,413
Unrealised (loss)/gain on trading securities	(135,636)	187,837
	(136,370)	286,250

30 OTHER OPERATING INCOME

	2008 AED 000	2007 AED 000
Dividend income	103,879	101,895
Gains from sale of available-for-sale investment securities	497,550	136,018
Loss from sale of held to maturity investment securities	-	(384)
Loss from sale of other debt securities	(342,535)	-
Loss from investment securities designated at fair value through profit or loss	(812,286)	(60,872)
Rental income	15,749	13,457
Gain on sale of properties	64,394	10,678
Interest rate instruments	40,903	24,438
Foreign exchange income	1,080,802	367,446
Other (expense)/income	(145,521)	268,663
	502,935	861,339

31 GENERAL AND ADMINISTRATIVE EXPENSES

Charges to general and administrative expenses in respect of depreciation amounted to AED 196.7 million (2007 - AED 114.2 million).

The charge also includes staff related expenses of AED 2,287.2 million (2007 - AED 1,219.3 million).

During the year an amount of AED 18.4 million (2007 - AED 17.2 million) has been charged to the Group consolidated income statement in respect of the Group's contribution to a UAE Pension and Social Security Scheme set up by the UAE Government authorities to provide retirement benefits for UAE nationals.

The number of employees of the Group at 31 December 2008 was 6,922 (2007 – 7,281).

32 NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	2008 AED 000	2007 AED 000
Net impairment of loans and receivables [refer note 5]	(1,374,420)	(600,008)
Net impairment of Islamic financing and investing products [refer note 6]	(44,230)	(63,635)
Net impairment of investment securities	(255,980)	(3,392)
Net special asset recoveries	30,635	49,380
Bad debt written off	(8,541)	-
	(1,652,536)	(617,655)

33 DIRECTORS' FEES

This comprises of fees payable to the directors of the Group of AED 12.7 million (2007 - AED 13.8 million). The 2008 figure includes fees payable to the directors of subsidiaries of AED 6.7 million (2007 – AED 4.8 million).

34 TAXATION

At 31 December 2008 provisions for tax payable on overseas branch operations amount to AED 17.2 million (2007 - AED 14.6 million) [refer note 21].

35 EARNINGS PER SHARE

The basic earnings per share is based on earnings of AED 3,681 million, being the profit attributable to the equity holders for the year ended 31 December 2008 (2007 - AED 2,771 million), and based on 5,052,522,477 shares. The 2007 earnings per share has been adjusted to reflect the issue of bonus shares made in 2008.

36 DERIVATIVES

The table below shows the positive and negative fair values of derivative financial instruments, 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	Negative fair value	Notional amount	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	2,625,957	(2,373,571)	88,680,706	46,088,083	40,257,610	2,268,961	30,886	35,166
Foreign exchange options	59,976	(60,079)	1,945,532	525,594	1,053,828	366,110	-	-
Interest rate swaps/caps	3,130,113	(2,619,751)	52,746,455	1,384,843	4,130,845	9,707,516	15,862,653	21,660,598
Credit derivatives	32,933	(544,333)	7,260,419	73,460	146,920	2,332,355	4,566,641	141,043
	5,848,979	(5,597,734)	150,633,112	48,071,980	45,589,203	14,674,942	20,460,180	21,836,807
Derivatives held as cash flow hedges:								
Interest rate swaps	474,515	(147,664)	18,585,114	1,075,070	3,068,276	6,905,908	7,140,510	395,350
Derivatives held as fair value hedges:								
Interest rate swaps	-	(9,069)	131,895	-	55,095	-	-	76,800
Total	6,323,494	(5,754,467)	169,350,121	49,147,050	48,712,574	21,580,850	27,600,690	22,308,957

36 DERIVATIVES (continued)

31 December 2007 Notional amounts by term to maturity

	Positive fair value AED 000	Negative fair value AED 000	Notional amount AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Derivatives held for trading:								
Forward foreign exchange contracts	729,468	(700,481)	62,430,324	34,716,301	25,956,270	1,726,039	31,714	-
Foreign exchange options	42,636	(41,500)	3,820,365	1,795,086	2,025,279	-	-	-
Interest rate swaps/caps	2,675,977	(1,895,688)	49,699,300	1,926,256	8,394,330	11,243,701	15,199,372	12,935,641
Credit derivatives	6,936	(63,480)	8,307,286	55,090	1,501,957	683,178	5,926,018	141,043
	3,455,017	(2,701,149)	124,257,275	38,492,733	37,877,836	13,652,918	21,157,104	13,076,684
Derivatives held as cash flow hedges:								
Interest rate swaps	301,328	(43,894)	10,804,116	150,000	3,070,603	3,540,170	4,043,343	-
Derivatives held as fair value hedges:								
Interest rate swaps	-	(5,790)	141,907	-	-	65,012	-	76,895
	3,756,345	(2,750,833)	135,203,298	38,642,733	40,948,439	17,258,100	25,200,447	13,153,579

36 DERIVATIVES (continued)

Derivative product types

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

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

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group. The majority of the fair value of favorable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and balance sheet hedging. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

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

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

The Group also uses interest rate swaps to hedge against changes in value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

37 EMPLOYEES' LONG TERM INCENTIVE SCHEME

On 01 April 2006, EBI had introduced two Long Term Incentive Plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

(i) Key employee long term incentive plan (LTIP)
This plan is applicable for selected key employees of EBI and the LTI units will vest over a period of three years from date of grant. Subject to continued employment with EBI, 30% of the LTI units can be cashed after two years and the remaining 70% after three years up to the fifth anniversary from the date of grant.

(ii) Executive long term incentive plan (ELTIP)
This plan is applicable for selected senior executives of EBI who are granted LTI units and performance units. Subject to continued employment with EBI, the LTI units will vest at the end of three years from date of grant. Performance units will vest based on the pre-defined performance of EBI during the three year period and will range from 50% to 150% of the units granted. LTI units and performance units can be cashed within a period of two years from the vesting date.

IFRS 2 "Share Based Payments" is applied in accounting for the LTI units granted. The expense of these plans is measured based on the fair value of the equity shares, the term, the risk free interest rate and the expected number of employees who will exercise the option rights using the Black Scholes pricing model. The fair valuation of the plan is carried out at each reporting date and is expensed on a straight line basis over the vesting period.

The fair value charge for the year ended 31 December 2008 was AED 5.1 million (2007- AED 31.1 million) for LTIP and AED 1.2 million (2007 - AED 6.4 million) for ELTIP.

The movement in number of LTI units granted during the year is as below:

	LTIP	ELTIP
LTI outstanding as at 1 January 2008	5,818,928	1,297,111
LTI units granted during the year	561,052	-
LTI units forfeited/lapsed during the year	(228,623)	-
LTI units vested during the year	(152,855)	-
LTI units outstanding as at 31 December 2008	5,998,502	1,297,111

38 BUSINESS SEGMENT REPORTING

The Group is organised into the following main business segments:

(a) Government, corporate and commercial banking which incorporates structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for Government, corporate and commercial customers.

(b) Retail banking which incorporates current and savings accounts, customer deposits, overdrafts, personal and installment credit loans, foreign currency and trade finance related facilities.

(c) Investment and funds management which involves managing the Group's portfolio of investments, funds management, and inter bank treasury operations.

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiary.

(e) Other operations of the Group comprise property development and management, insurance services, credit card facilities and other banking related services, none of which constitutes a separately reportable segment.

The distinctions between corporate and commercial banking and retail banking segments are primarily based on monetary threshold limits determined by management.

These figures represent streams of income and expenses directly attributable to the business segment assets and liabilities. They do not reflect inter sector borrowings or placements and accordingly do not reflect the profitability of the business segment.

38 BUSINESS SEGMENT REPORTING (continued)

31 December 2008	Government, corporate and commercial AED 000	Retail AED 000	Investment and funds management AED 000	Islamic banking activities AED 000	Other AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	2,781,360	2,266,279	361,351	424,821	-	5,833,811
Net fee, commission and other income	999,235	877,904	(553,172)	468,571	820,367	2,612,905
Total operating income	3,780,595	3,144,183	(191,821)	893,392	820,367	8,446,716
General and administrative expenses						(3,355,662)
Net impairment loss on financial assets						(1,652,536)
Amortisation of intangibles						(95,860)
Share of profit of associates and joint ventures						338,575
Profit for the year						3,681,233
Segment assets	169,196,185	30,521,241	39,052,678	30,950,789	12,692,783	282,413,676
Segment liabilities and equity	96,309,205	47,776,180	92,307,744	28,470,268	17,550,279	282,413,676

Included in segment liabilities is total equity which has been allocated to the different segments based on the relative size of the segment assets.

38 BUSINESS SEGMENT REPORTING (continued)

31 December 2007	Government, corporate and commercial AED 000	Retail AED 000	Investment and funds management AED 000	Islamic banking activities AED 000	Other AED 000	Total AED 000
Net interest income and income from Islamic products net of distribution to depositors	1,299,252	1,076,248	218,589	186,318	-	2,780,407
Net fee, commission and other income	769,552	363,563	629,205	236,822	179,788	2,178,930
Total operating income	2,068,804	1,439,811	847,794	423,140	179,788	4,959,337
General and administrative expenses						(1,927,308)
Net impairment loss on financial assets						(617,655)
Amortisation of intangibles						(19,015)
Share of profit of associates and joint ventures						375,549
Profit for the year						2,770,908
Segment assets	146,946,557	30,863,525	45,139,233	19,459,338	11,406,990	253,815,643
Segment liabilities and equity	98,864,792	40,858,764	93,194,363	16,707,056	4,190,668	253,815,643

Included in segment liabilities is total equity which has been allocated to the different segments based on the relative size of the segment assets.

39 SUBSIDIARIES AND ASSOCIATE COMPANIES

The principal direct subsidiaries of the Group are as follows:-

As at 31 December 2008

	Group % Share-holding	Nature of business	Country of incorporation
Emirates Bank International PJSC	100	Banking	Dubai, U.A.E.
National Bank of Dubai PJSC	100	Banking	Dubai, U.A.E.
Subsidiaries of Emirates Bank International PJSC:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.
E.T.F.S. LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, U.K.
Emirates International Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates Loyalty Company LLC	100	Customer loyalty and smart card services	Dubai, U.A.E.
Network International LLC	100	Card services	Dubai, U.A.E.
Emirates Investment Services Limited (registered in Dubai International Financial Centre)	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.
Dubai Bank Limited (dormant)	97	Banking	Dubai, U.A.E.
Emirates Money Consumer Finance LLC	100	Consumer Finance	Dubai, U.A.E.
Emirates Funds LLC	100	Asset Management	Dubai, U.A.E.
Associate companies of Emirates Bank International PJSC:			
Union Properties PJSC	47.6	Real estate	Dubai, U.A.E.
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Subsidiaries of National Bank of Dubai PJSC:			
NBD Investment Bank Limited (registered in Dubai International Financial Centre)	100	Investment Banking	Dubai, U.A.E.
National Bank of Dubai Trust Company (Jersey) Limited	100	Trust administration services	Jersey, U.K.
NBD Securities LLC	100	Brokerage services	Dubai, U.A.E.
NBD Properties LLC	100	Real estate	Dubai, U.A.E.
Al Watani Al Islami	100	Islamic financing	Dubai, U.A.E.

Any material changes in the Group's principal direct subsidiaries during the year 2008 have been disclosed in note 12.

40 COMMITMENTS AND CONTINGENCIES

(a) At 31 December, the Group's commitments and contingencies are as follows:

	2008 AED 000	2007 AED 000
Letters of credit	17,955,417	19,405,990
Guarantees	50,693,534	34,064,323
Liability on risk participation	2,938,259	2,724,475
Irrevocable loan commitments	24,126,946	22,712,030
	95,714,156	78,906,818

(b) Acceptances

Under IAS 39, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(c) Capital commitments

The Group has commitments for branch refurbishments and automation projects of AED 424 million (2007 - AED 678 million).

41 RELATED PARTY TRANSACTIONS

Banking transactions are carried out with certain related parties. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

	2008 AED 000	2007 AED 000
Loans to majority shareholder of the ultimate parent	34,780,551	23,785,828
Deposits from the majority shareholder of the ultimate parent	229,467	295,402
Investment in bonds of the majority shareholder of the ultimate parent	528,979	194,702
Loans to the ultimate parent	927,669	-
Deposits by the ultimate parent	6,747,215	-
Loans to directors and related companies	3,637,679	3,673,061
Loans to associates	3,296,387	2,462,950
Loans to and investments in funds managed by the Group	1,791,057	2,180,796
Payments made to associates	60,254	32,769
Fees received in respect of funds managed by the Group	125,844	72,321
Interest paid to funds managed by the Group	57,469	-
Short term and post employment benefits to directors and key management personnel	51,105	46,806

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relations at the period end.

42 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement can be analysed by the following regions:

31 December 2008:

	GCC AED 000	International AED 000	Total AED 000
ASSETS			
Cash and deposits with Central Bank	16,707,194	-	16,707,194
Due from banks	1,897,685	6,230,657	8,128,342
Loans and receivables	180,780,324	7,226,465	188,006,789
Islamic financing and investment products	20,834,115	89,258	20,923,373
Trading securities	161,277	83,168	244,445
Investment securities	9,143,191	10,247,610	19,390,801
Investments in associates and joint ventures	2,924,808	-	2,924,808
Investment properties	796,107	-	796,107
Property and equipment	2,789,646	2,972	2,792,618
Goodwill and Intangibles	6,112,598	26,733	6,139,331
Positive fair value of derivatives	-	6,323,494	6,323,494
Customer acceptances	2,860,654	-	2,860,654
Other assets	7,175,720	-	7,175,720
TOTAL ASSETS	252,183,319	30,230,357	282,413,676
LIABILITIES			
Customer deposits	132,020,077	7,959,727	139,979,804
Islamic customer deposits	21,955,643	379,494	22,335,137
Due to banks	17,755,485	30,670,153	48,425,638
Repurchase agreements with banks	-	3,260,419	3,260,419
Debt issued and other borrowed funds	-	28,802,830	28,802,830
Sukuk payable	1,267,185	-	1,267,185
Negative fair value of derivatives	-	5,754,467	5,754,467
Customer acceptances	2,860,654	-	2,860,654
Other liabilities	3,965,621	-	3,965,621
Total equity	25,761,921	-	25,761,921
Total liabilities and equity	205,586,586	76,827,090	282,413,676
Geographical distribution of off balance sheet items – 2008			
Letters of credit and guarantees	66,174,047	2,474,904	68,648,951

31 December 2007 :

Geographical distribution of assets	214,422,290	39,393,353	253,815,643
Geographical distribution of liabilities and equity	176,936,206	76,879,437	253,815,643
Geographical distribution of letters of credit and guarantees	48,365,633	5,104,680	53,470,313

43 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values:

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

As at 31 December 2008

	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised gain/(loss) AED 000
Financial assets										
Due from banks	-	-	-	-	8,128,342	-	-	8,128,342	8,148,090	19,748
Loans and receivables	-	-	-	188,006,789	-	-	-	188,006,789	187,118,965	(887,824)
Islamic financing and investment products	-	-	-	20,923,373	-	-	-	20,923,373	20,923,373	-
Trading securities	244,445	-	-	-	-	-	-	244,445	244,445	-
Investment securities	2,890,089	632,885	15,867,827	-	-	-	-	19,390,801	19,391,740	939
Investments in associates and joint ventures	-	-	-	-	-	-	2,924,808	2,924,808	1,539,083	(1,385,725)
Positive fair value of derivatives	5,848,979	-	-	-	-	474,515	-	6,323,494	6,323,494	-
Others	-	-	-	-	-	-	24,962,930	24,962,930	24,962,930	-
	8,983,513	632,885	15,867,827	208,930,162	8,128,342	474,515	27,887,738	270,904,982	268,652,120	(2,252,862)
Financial liabilities										
Customer deposits	-	-	-	-	139,979,804	-	-	139,979,804	139,979,804	-
Islamic customer deposits	-	-	-	-	22,335,137	-	-	22,335,137	22,335,137	-
Due to banks	-	-	-	-	48,425,638	-	-	48,425,638	48,489,885	(64,247)
Repurchase agreements with banks	-	-	-	-	3,260,419	-	-	3,260,419	3,260,419	-
Debt issued and other borrowed funds	-	-	-	-	28,802,830	-	-	28,802,830	28,802,830	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	5,597,734	-	-	-	-	156,733	-	5,754,467	5,754,467	-
Others	-	-	-	-	-	-	6,826,275	6,826,275	6,826,275	-
	5,597,734	-	-	-	244,071,013	156,733	6,826,275	256,651,755	256,716,002	(64,247)

43 FINANCIAL ASSETS AND LIABILITIES (continued)

As at 31 December 2007:

	Designated at fair value through profit or loss AED 000	Held-to-maturity AED 000	Available-for-sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised gain/(loss) AED 000
Financial assets										
Due from banks	-	-	-	-	12,800,902	-	-	12,800,902	12,800,675	(227)
Loans and receivables	-	-	-	151,952,233	-	-	-	151,952,233	152,562,718	610,485
Islamic financing and investment products	-	-	-	14,471,737	-	-	-	14,471,737	14,471,737	-
Trading securities	3,543,999	-	-	-	-	-	-	3,543,999	3,543,999	-
Investment securities	1,775,577	1,034,562	17,245,304	-	-	-	-	20,055,443	20,055,607	164
Investments in associates and joint ventures	-	-	-	-	-	-	2,712,372	2,712,372	7,321,582	4,609,210
Positive fair value of derivatives	3,455,017	-	-	-	-	301,328	-	3,756,345	3,756,345	-
Others	-	-	-	-	-	-	34,385,551	34,385,551	34,385,551	-
	8,774,593	1,034,562	17,245,304	166,423,970	12,800,902	301,328	37,097,923	243,678,582	248,898,214	5,219,632
Financial liabilities										
Customer deposits	-	-	-	-	126,134,743	-	-	126,134,743	125,256,014	878,729
Islamic customer deposits	-	-	-	-	14,541,970	-	-	14,541,970	14,541,970	-
Due to banks	-	-	-	-	46,553,648	-	-	46,553,648	46,543,379	10,269
Repurchase agreements with banks	-	-	-	-	5,610,043	-	-	5,610,043	5,610,043	-
Debt issued and other borrowed funds	-	-	-	-	25,406,321	-	-	25,406,321	25,406,321	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	2,701,149	-	-	-	-	49,684	-	2,750,833	2,750,833	-
Others	-	-	-	-	-	-	6,392,126	6,392,126	6,392,126	-
	2,701,149	-	-	-	219,513,910	49,684	6,392,126	228,656,869	227,767,871	888,998

43 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities

(a) Due from banks

Due from banks includes overnight, call and short notice accounts and time loans having a maturity of up to five years. The deposits and loans are being repriced daily, monthly, quarterly and half yearly depending on the tenure of the placements using the prevailing market rates at the repricing date. The deposits and loans are all expected to be realised on maturity.

(b) Loans and receivables

Loans and receivables are net of impairment allowances.

A significant portion of the Group's loans and receivables portfolio comprises lending to corporate customers. These facilities are given at a variable rate determined, generally, with reference to the cost of funds and market rates besides the usual parameters of tenor and risk evaluation.

The balance of the loans and receivables portfolio comprises personal loans and other debt securities. The average interest rate on the personal loans at the year-end is in line with the rate charged for such lending in the local banking market.

(c) Islamic financing and investment products

Fees levied are comparable to those prevailing in the market for similar products. There has been no significant change in the fees levied on these products at the year ended 31 December 2008.

(d) Investment securities

Investment securities are classified as available-for-sale, held to maturity or designated at fair value through profit or loss account. The fair value of investments is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the investment is estimated using pricing models or discounted cash flow techniques. Held to maturity investments are net of impairment allowances.

(e) Investments in associates and joint ventures

The Group's investments in its associates and joint ventures are accounted for on an equity accounting basis [refer note 2 (d)] and amount to AED 2,924.8 million at 31 December 2008 (AED 2,712.4 million at 31 December 2007). The fair value of the investments in the associate companies, which are public quoted companies on the Dubai Financial Market, amounts to AED 1,539.1 million at 31 December 2008 (AED 7,321.5 million at 31 December 2007).

43 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities (continued)

(f) Customer deposits

Customer deposits comprise a significant amount of fixed deposits with an original maturity, generally, of one to three months. These deposits are repayable on maturity. A significant portion of these deposits has been maintained with the Group for a number of years on a roll over basis. For customer deposits maturing after three months of the year end date, a fair value has been arrived at by applying appropriate interest rates prevailing at the year end to these balances.

The balance of the customer deposits, primarily comprising interest bearing savings, call and fixed deposit accounts and non-interest bearing current accounts, is repayable on demand.

(g) Islamic customer deposits

Islamic customer deposits receive a share of the profits of the Islamic Bank which has been approved by the Sharia'a Committee at the year end.

(h) Due to banks

Due to banks includes short-term borrowings with an original maturity, generally, of less than three months and non-interest bearing deposits. The short-term borrowings are repayable on maturity. The non-interest bearing deposits are repayable on demand. For borrowings maturing after three months from the balance sheet date, the fair value has been arrived at by applying the market interest rates prevailing at the year end to these deposits.

(i) Repurchase agreement with banks

These deposits are repriced on a quarterly basis and thus the carrying value is comparable to the fair value of the deposit.

(j) Debt issued and other borrowed funds

These borrowings have repayment periods of up to three years and the loans were taken at a variable rate determined, generally, with reference to the ninety-day LIBOR rate.

44 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

		2008 AED 000	2007 AED 000
(a)	Analysis of changes in cash and cash equivalents during the year		
	Balance at beginning of year	(9,772,241)	(5,293,055)
	Net cash outflow	(3,639,721)	(4,479,186)
	Balance at end of year	(13,411,962)	(9,772,241)
(b)	Analysis of cash and cash equivalents		
	Cash and deposits with Central Bank	16,707,194	29,226,054
	Due from banks	8,128,342	12,800,902
	Due to banks	(48,425,638)	(46,553,648)
		(23,590,102)	(4,526,692)
	Less : deposits with Central Bank for regulatory purposes	(9,776,403)	(6,599,449)
	Less : amounts due from banks maturing after three months	(2,322,959)	(2,378,318)
	Add : amounts due to banks maturing after three months	22,277,502	3,732,218
		(13,411,962)	(9,772,241)

45 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of the UAE, which is the regulatory authority for banks in the UAE, sets and monitors capital requirements for the Group.

For implementing current capital requirements, the Central Bank of the UAE requires the Group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 10%. Risk weighted assets take into account on balance sheet and off balance sheet transactions and are allocated to individual operations on that basis.

The Group's regulatory capital are calculated as per the guidelines of the Central Bank of the UAE and analysed into two tiers:

- Tier I capital includes share capital, legal, statutory and other reserves, retained earnings, minority interests after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier II Capital includes qualifying subordinated debt and cumulative changes in fair value.

The capital adequacy ratio:

	2008 AED 000	2007 AED 000
Tier I Capital		
Issued capital	5,052,523	4,393,498
Share premium reserve	12,270,124	12,270,124
Legal and statutory reserve	1,629,205	1,260,205
Other reserves	3,324,385	3,917,410
Retained earnings	4,193,062	2,497,919
Minority interest	96,776	1,903
Total tier I Capital	26,566,075	24,341,059
Less : Goodwill and Intangibles	(6,139,331)	(6,178,627)
Less : Treasury shares	(46,175)	(46,175)
Total	20,380,569	18,116,257
Tier II Capital		
Cumulative changes in fair value	(757,979)	863,890
Subordinated debt	5,113,000	3,672,750
Total	4,355,021	4,536,640
Total regulatory capital	24,735,590	22,652,897

45 CAPITAL MANAGEMENT AND ALLOCATION (continued)

RISK WEIGHTED EXPOSURE

	2008 AED 000	2007 AED 000
Corporate	162,465,665	125,883,123
Retail	28,504,783	22,827,483
Treasury	12,441,420	15,756,749
Others	13,873,710	8,190,382
Total	217,285,578	172,657,737

Capital Ratio:		
Total regulatory capital as a percentage of total risk weighted asset	11.4%	13.1%
Total tier I capital as a percentage of risk weighted assets	9.4%	10.5%

46 FUND MANAGEMENT

The Group manages a number of funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 7,204 million at 31 December 2008 (2007 - AED 9,685 million).

47 RISK MANAGEMENT

Risk management framework and processes:

The complexity in the Group's business operations and diversity of geographical locations requires identification, measurement, aggregation and effective management of risk. The Group manages its risks in a structured, systematic and transparent manner through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

The key features of the Group's comprehensive risk management framework are:

- Risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees.
- The Board of Directors has the overall responsibility and provides the overall risk management direction and oversight.
- The Group's risk appetite is determined by the Executive Committee and approved by the Board of Directors.
- The Group's overall risk management policies are managed by the Group risk management department, headed by the Chief Risk Officer ("CRO"). This function is independent of the business divisions.
- Credit, market, operational and liquidity risks are managed in a coordinated manner within the organization.
- The Board has formed a dedicated Board Risk Committee (BRC) in the beginning of 2008, which now meets regularly and is responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework. The scope of BRC is being expanded in current year to help articulate the risk appetite in a forward looking manner and monitor the business performance within defined risk limits.

The risk management function assists senior management in controlling and actively managing The Group's overall risk. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with the Group's risk appetite.
- The Group's overall business strategy is consistent with its risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.

Scope and nature of risk reporting tools:

The comprehensive risk management framework enables the Group to identify, assess, manage and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as:

- Credit risk in commercial and consumer lending, collateral coverage ratios, limit utilisations and past due alerts.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposures to losses due to extreme and sudden movements in market prices or rates.

Risk management process:

Through the comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to the management for appropriate timely action.

47 RISK MANAGEMENT (continued)

Credit risk:

Credit Risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in a financial loss to the Group. Further the risk that a counterparty will fail to deliver on a financial markets transaction contract at settlement, known as Settlement Risk, and the risk arising from an insufficient ability to realize collaterals taken, known as Residual Risk, are captured as credit risk.

Credit risk management and structure:

The approach to credit risk management is based on the foundation to preserve independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

The Group's credit policy focuses on the core credit policies and includes lending parameters, target businesses, specific policy guidelines, management of high risk customers, provisioning guidelines and cross over activity.

Board of Directors ("BOD") and the Board Credit and Investment Committee ("BCIC") have delegated authority to the members of the Executive Management to facilitate and effectively manage the Business. A chain of specific delegated limits are vested upon individuals starting from business unit levels to the CEO. However, the BOD and the BCIC retains the ultimate authority to approve larger credits.

Independent functions within Risk manage credit risks on the Corporate and retail portfolios.

Management of Corporate Credit Risk:

The process for managing corporate credit risk is as follows:

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends and the customer's standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.
- Borrower risk grading - Each borrower is risk graded along a 28 grade Masterscale according to its risk characteristics. The Masterscale introduced during the latter part of the year has 24 performing grades from 1a to 4f and four non-performing or default grades from 5a to 5d. Rating models have been developed and are in the process of being implemented across all business segments of the Group.
- Management of high risk accounts – This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on interest suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

47 RISK MANAGEMENT (continued)

Credit risk management and structure (continued):

Management of Consumer Credit Risk:

- An independent unit formulates retail credit policies and monitors compliance.
- Policies are reviewed and updated on a regular basis to ensure that current market trends are considered on a timely basis.
- Retail lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history.

Credit Risk Monitoring:

The Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, valuation of collateral and market intelligence. The results of the monitoring process are reflected in the risk grading process.

The health of the Group's credit portfolio is continuously assessed/ monitored on the basis of exception/management information reports/returns generated by the business units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

A specialised and focused "Special Loans Group" team handles the management and collection of problem credit facilities.

Group credit risk mitigation strategy:

The Group operates within:

1. Exposure ceilings imposed by the Central Bank of the UAE;
2. Exposure ceilings imposed by the BOD/ BCIC/ Management;
3. Country limits approved by the BOD/ BCIC/ Management; and
4. Various sectoral / Product ceilings.

Portfolio diversification is the basis of the Group's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits.

47 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2008 AED 000		2007 AED 000	
	Loans and receivables	Others	Loans and receivables	Others
Agriculture and allied activities	164,575	1,698	89,755	5,527
Mining and quarrying	397,739	382	500,228	-
Manufacturing	10,828,330	712,148	8,740,989	752,347
Construction	9,154,306	2,671,578	11,755,331	2,280,235
Trade	10,992,032	1,197,751	10,259,275	703,908
Transport and communication	7,313,519	1,458,309	9,206,375	955,229
Services	26,810,474	1,743,606	19,339,899	6,182,160
Sovereign	36,175,267	3,116,120	32,511,143	6,527,255
Personal - retail	25,759,725	681,558	18,171,402	1,061,126
Personal - corporate	14,341,194	1,377,214	12,297,456	943,009
Real estate	24,367,923	9,698,521	12,101,935	3,012,196
Banks	1,985,116	14,697,910	4,699,680	16,864,018
Other financial institutions and investment companies	17,083,619	7,394,179	10,307,077	9,125,747
Others	5,745,440	8,198,808	3,785,744	5,925,838
Total assets	191,119,259	52,949,782	153,766,289	54,338,595
Less: Allowances for impairment	(3,112,470)	(480,099)	(1,814,056)	(208,548)
Less: Deferred income	-	(857,914)	-	(545,594)
	188,006,789	51,611,769	151,952,233	53,584,453

Others includes due from banks, Islamic financing and investment products, investment securities, trading securities and investments in associates and joint ventures.

47 RISK MANAGEMENT (continued)

Classification of trading securities and investment securities as per their external ratings:

As of 31 December 2008

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	-	1,415,376	-	1,415,376
AA- to AA+	87,843	56,630	2,527,772	-	2,672,245
A- to A+	2,075	192,356	2,992,045	46,311	3,232,787
Lower than A-	151,174	113,206	707,579	-	971,959
Unrated	2,648,997	270,693	8,225,055	198,134	11,342,879
	2,890,089	632,885	15,867,827	244,445	19,635,246

Of which issued by:

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	19,331	131,810	1,287,777	24,027	1,462,945
Public sector enterprises	202,533	49,155	1,425,260	43,412	1,720,360
Private sector and others	2,668,225	451,920	13,154,790	177,006	16,451,941
	2,890,089	632,885	15,867,827	244,445	19,635,246

47 RISK MANAGEMENT (continued)

As of 31 December 2007

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
AAA	-	112,778	4,931,269	-	5,044,047
AA- to AA+	57,735	82,399	3,034,648	65,210	3,239,992
A- to A+	81,948	97,470	2,861,162	72,159	3,112,739
Lower than A-	6,985	123,839	597,732	305,979	1,034,535
Unrated	1,628,909	618,076	5,820,493	3,100,651	11,168,129
	1,775,577	1,034,562	17,245,304	3,543,999	23,599,442

Of which issued by:

Ratings	Designated at fair value through profit or loss AED 000	Held-to-maturity investment securities AED 000	Available-for-sale investment securities AED 000	Trading securities AED 000	Total AED 000
Governments	93,076	235,235	1,451,960	-	1,704,253
Public sector enterprises	718	-	3,928,651	55,285	3,984,654
Private sector and others	1,681,783	799,327	11,864,963	3,488,714	17,910,535
	1,775,577	1,034,562	17,245,304	3,543,999	23,599,442

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the Group to limit its exposure.

Collateral Management:

Credit risk assessment identifies the primary sources of repayment which will always be the obligor's normal business cash flows and/or normal personal income. Where credit facilities are secured by collateral, the Group seeks to ensure the enforceability of the facilities.

Acceptable collateral includes mortgage over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation frequencies are clearly documented in the corporate credit policy.

Collaterals are revalued as a general rule as per the policy. However adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately covered.

47 RISK MANAGEMENT (continued)

Collateral Management (continued):

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group generally does not use the non-cash collateral for its own operations.

Risk Gross Maximum Exposure:

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 use of master netting and collateral agreements.

	2008 AED 000	2007 AED 000
Deposits with Central Bank	14,926,556	27,732,779
Due from banks	8,128,342	12,800,902
Loans and receivables	188,006,789	151,952,233
Islamic financing and investment products	20,923,373	14,471,737
Trading securities	244,445	3,543,999
Investment securities	19,390,801	20,055,443
Investments in associates and joint ventures	2,924,808	2,712,372
Positive fair value of derivatives	6,323,494	3,756,345
Customer acceptances	2,860,654	2,851,216
Total (A)	263,729,262	239,877,026
Contingent liabilities	71,587,210	56,194,788
Irrevocable loan commitments	24,126,946	22,712,030
Total (B)	95,714,156	78,906,818
Total credit risk exposure (A + B)	359,443,418	318,783,844

47 RISK MANAGEMENT (continued)

AGEING ANALYSIS OF PAST DUE BUT NOT IMPAIRED

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets, based on the Group's credit rating system.

31 December 2008

		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Low/fair risk AED 000	Watch list AED 000	Renegotiated terms AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	8,128,342	8,129,281	-	-	-	-	-	-	13,061	-	(14,000)	(939)
Loans and receivables:												
Corporate lending	161,157,992	153,722,073	346,291	4,748,386	1,424,471	313,229	189,439	306,891	748,990	(285,054)	(356,724)	107,212
Retail lending	25,452,035	22,519,774	-	-	1,102,682	1,561,642	158,309	8,533	1,845,125	(539,997)	(1,204,033)	101,095
Islamic Financing	20,923,373	18,478,316	38,852	-	839,605	254,356	166,771	1,139,473	209,338	(2,018)	(201,320)	6,000
Other	1,396,762	1,061,671	-	-	-	-	-	-	1,315,931	-	(980,840)	335,091
Trading and Investment securities:												
Quoted - Government debt	1,362,870	1,362,870	-	-	-	-	-	-	-	-	-	-
Quoted - Other debt securities	9,250,734	9,233,870	-	-	-	-	-	-	56,001	-	(39,137)	16,864
Unquoted - Debt securities	2,201,787	2,201,787	-	-	-	-	-	-	-	-	-	-
Other securities	6,819,855	6,638,275	-	-	-	-	-	-	407,222	-	(225,642)	181,580

47 RISK MANAGEMENT (continued)

AGEING ANALYSIS OF PAST DUE BUT NOT IMPAIRED (continued):

31 December 2007

		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of receivable	Carrying amount AED 000	Low/fair risk AED 000	Watch list AED 000	Renegotiated terms AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying amount AED 000
Due from banks	12,800,902	12,801,218	-	-	-	-	-	-	41,684	-	(42,000)	(316)
Loans and receivables:												
Corporate lending	128,632,378	127,832,172	195,686	242,386	122,500	21,082	10,614	52,554	1,015,828	(432,027)	(428,417)	155,384
Retail lending	18,309,588	15,326,264	-	-	2,060,705	601,702	186,120	-	1,227,243	(330,881)	(761,565)	134,797
Islamic Financing	14,471,737	12,977,237	-	-	347,712	801,246	95,482	161,164	246,644	-	(157,748)	88,896
Other	5,010,267	5,010,267	-	-	-	-	-	-	114,598	-	(114,598)	-
Trading and Investment securities:												
Quoted - Government debt	7,085,196	7,085,196	-	-	-	-	-	-	-	-	-	-
Quoted - Other debt securities	9,533,994	9,533,994	-	-	-	-	-	-	-	-	-	-
Unquoted - Debt securities	1,749,281	1,749,281	-	-	-	-	-	-	-	-	-	-
Other securities	5,230,971	5,209,436	-	-	-	-	-	-	30,335	-	(8,800)	21,535

47 RISK MANAGEMENT (continued)

Impairment assessment

The asset portfolio is reviewed quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per the Credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at quarterly intervals to the Board Risk Committee.

Watch list

The asset portfolio is reviewed quarterly at a minimum. Potential problem credits are identified in time and transferred to "watch list" category and monitored closely. Loans and receivables on which recovery of installments and or interest is due beyond 90 days are downgraded and interest is suspended. Such loans and receivables are systematically identified and closely monitored for recovery. Regular monitoring and recovery of such loans and receivables is handled by a specialized unit.

Definition of default

A counterparty is marked as default:

(a) If the Group considers the counterparty unlikely to pay due to its high probability of default, the threshold of the model is set at a probability of default of 35% (model induced).

The Group considers a counterparty is unlikely to pay due to one of the following conditions:

- A material credit obligation has been put on non-accrual status.
- Distressed restructuring of a credit obligation.
- Selling of a credit obligation at an economic loss.
- The Group or a third party has filed for the counterparty's bankruptcy.

(b) If the counterparty is past due more than 90 days on any material credit obligation to the banking group, it is considered to be in default. Material credit obligation refers to the lower of either 5% of the total credit obligation against the banking group or AED 5 million for all non-retail counterparties. The materiality thresholds are not applicable to retail exposures.

Specific Impairment

Corporate: The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. The impairment losses are evaluated at each reporting date. Allowances are made in accordance with IFRS where early warning signs of losses are evident. A specific impairment is raised against a credit exposure due to a significant perceived decline in the credit quality or a material obligation is past due for more than 90 days or an obligor exceeded an advised limit for more than 90 days.

Retail: Criteria for provisions is based on products, namely, credit cards and other retail loans which commences at greater than 61 days past due.

47 RISK MANAGEMENT (continued)

Collective Impairment

Provisions for collective impairment are made based on the IAS 39 guidelines. Impairments that cannot be identified with an individual loan are identified on a portfolio basis. The Group has adopted the following methodologies for determining the collective portfolio impairment provisions.

Corporate: The historical loss rates for different industrial sectors serve as the starting point for determining collective impairment provisions for the corporate portfolios. However, given the economic scenario in the last decade, the loss rates have remained exceptionally low. In order to come up with reliable and adequate reserves for collective impairment provisions, the loss rates are also benchmarked against published default histories observed over economic cycles in different markets. Adjustments based on the level of experience and collective judgments are also factored to reflect the current market realities. Stress scenarios are also run to ensure that the reserves are adequate and reflect a realistic level of collective impairment provisions.

Retail: Collective impairment provisions for the retail portfolios are determined based on the widely accepted flow rates methodology. Flow rates for various retail loan products are monitored over a period to determine the average flow rates. The flow rates are also stressed to determine the likely impact under different scenarios/situations on the level of collective impairment provisions for the banking group.

Write offs

Corporate: Facilities where partial loss of principal is expected and full recovery of interest and fees is not expected or overdue for 180 days or more are transferred on a case-by-case basis to the specialised loans group for specialized remedial management and write off as determined by the BOD.

Loans with renegotiated terms

Loans with renegotiated terms are loans, the repayment plan of which have been restructured to align with the changed cash flows of the borrower with no other concessions by way of reduction in the amount or interest, but in some instances with improved security. These loans are treated as standard loans.

However, the loans which have been restructured due to impairment in the source of repayment, or deterioration in borrowers' financial positions or where the Group has made concessions that it would not other wise consider are considered as either watch list or individually impaired loans are monitored closely until final settlement or substantial repayment is made in accordance with the settlement agreement.

47 RISK MANAGEMENT (continued)

Market Risk

Market risk is defined as exposure to adverse changes in the market value of portfolios and positions in financial instruments caused by changes in market prices. This can be divided into basic market risk factors such as foreign exchange rates, interest rates, volatilities and equity prices.

Market risk management is designed to mitigate the amount of potential losses on open positions which may arise due to unforeseen changes in market prices/rates (e.g. foreign exchange rates, interest rates or securities prices). The Group transacts in diverse set of financial instruments, both physical and derivative, that include securities, currencies and equities.

The Group uses appropriate and standard market models for the valuation of its vanilla positions and liquid structured products; and receives regular market information from common market data providers in order to measure and monitor market risk. Well defined policies, procedures and the trading limits are in place to ensure the implementation of market risk oversight of day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's general market risk philosophy. In addition to its internal policy and procedures, the Group is required to comply with the guidelines and regulations of applicable jurisdictions (e.g. The Central Bank of the UAE, DFSA) it operates in.

Market risk is a function independent of business/risk taking activities, and reports to the Group CRO. All market risk limits are approved by BCIC and delegated through Group Asset Liability Management Committee ("ALCO") to Global Markets and Treasury division ("Treasury"). Any new limits or extensions to existing limits are reviewed and if appropriate, supported by Market Risk before being proposed to the BCIC for approval. This ensures that all limits are approved and delegated in close consultation with market risk. All limit breaches are recorded by market risk and reported to the Group CRO, Head of Treasury and the responsible desk head. Treasury must provide adequate explanation for any limit breaches and the strategy to remedy the breach. All limit breaches and related information are reported to ALCO on monthly basis.

Market risk monitors limit utilization on a daily basis through a multi-layered Limit Monitoring System which uses data and reports from the treasury system, Kondor+.

Limit monitoring report is prepared on a daily basis and the historical time series for all limit exposures are charted in a graphical format for periodic management review. These charts are part of the monthly ALCO pack which is provided to senior management.

The following market risk limits are monitored on a daily basis:

- Stop loss limit for foreign exchange and interest rate derivatives trading desk.
- Overall PV01 limits for the Interest Rate Derivatives.
- PV01 Limits by time buckets.
- Spread Risk for USD/AED and USD/SAR to control exposure in the pegged currencies.
- Open Position limits for foreign exchange by three currency groups and overall open position limits.
- Option premium limits for buying options.
- Contract limits for exchange traded products such as interest rate futures and bond futures.
- Notional limits for forward rate agreements and Interest rate swaps (IRS) /Currency interest rate swaps (CIRS).
- Greeks (Delta, Gamma and Vega) limits for options trading.

47 RISK MANAGEMENT (continued)

Foreign exchange risk hedging strategies are used to ensure that positions are always within established limits. The Group has a conservative policy towards foreign exchange risk and has set limits on positions by currency. Foreign exchange risk is measured using position reports showing the net long or short position for currencies, which are monitored on a real-time basis. Foreign exchange risk is actively managed using spot and forward foreign exchange instruments.

Foreign exchange exposure at year end:

	31 December 2008		31 December 2007	
Currency	Open position in currency	Open position in AED	Open position in currency	Open position in AED
AUD	914	2,347	57,586	185,691
CAD	231	703	-	-
CHF	36,091	126,685	87,372	285,269
EUR	11,087	57,972	(25,996)	(140,558)
GBP	(9,661)	(51,971)	105,991	780,434
JPY	402,664	16,552	-	-
NZD	1,916	4,120	(49,936)	(141,979)
QAR	-	-	688,161	694,217
SGD	-	-	(259,035)	(661,783)
USD	179,664	666,523	2,336,545	8,580,960

Total open position AED*	822,931	9,582,251
Total open position limit (in USD)	100,000,000	50,000,000
Total open position (in USD)	224,049	2,608,835
Limit utilization (in %)	0.22%	5.20%

*The total is inclusive of minor exposures in various other currencies.

The Group has a conservative trading policy. All new products are only authorized if adequate infrastructure has been assured and approved by senior management. Trading risk limits for foreign exchange, securities, interest rate products and derivatives are reviewed annually and approved by relevant authorities. The Treasury is responsible for managing trading risk exposure within approved trading risk limits. These limits are low in comparison to the balance sheet size. Systems and procedures are in place to monitor and report related exposure on a daily basis.

To measure and monitor the interest rate risk in the trading book, the Group employs PV01 and VaR limits. Contract limits were established for exchange traded products, and notional limits are put in place for IRS/CIRS. Delta, Gamma and Vega limits are established for options trading.

47 RISK MANAGEMENT (continued)

Interest rate derivatives Exposure:

Impact of +1 basis point parallel shift in the yield curve, on trading book:

		In AED equivalent
Transaction Currency	2008	2007
USD	87,677	152,849
AUD	3,128	13,995
AED	(83,200)	(164,550)
SAR	(21,884)	(34,060)
EUR	(18,845)	(6,921)
ZAR	3,227	3,820
Total	(29,897)	(34,867)

Market risk has implemented Reuters' KVaR+ system for Value-at-Risk (VaR) calculations, scenario building, and stress testing trading risk. The VaR is calculated according to two different methodologies:

- Historical simulation
- Monte-Carlo simulation

The Monte-Carlo simulation implemented at the Group uses a transformed distribution (based on the original distribution to preserve the characteristics of the empirical distribution).

The VaR system is set up to generate daily reports at two different confidence Levels and under three different holding period assumptions, as shown in the following table:

Methodology	Confidence Level	Holding Period (Horizon)
Historical simulation	95%	1 day 10 days 180 days (Banking Book)
	99%	1 day 10 days 180 days (Banking Book)
Monte Carlo	95%	1 day 10 days 180 days (Banking Book)
	99%	1 day 10 days 180days (Banking Book)

47 RISK MANAGEMENT (continued)

The KVaR+ system has been configured to highlight the independent impact of every risk factor that contributes to the total VaR figure. Thus the Group's management is able to disaggregate daily total VaR by the following risk types:

- Interest Rate VaR
- Currency VaR
- Volatility VaR
- Residual VaR

Year end Value at Risk:

- Confidence Level : 99%
- Holding Period : 1 day
- Methodology: Monte Carlo simulation

Total Value at Risk	2008 AED	2007 AED
As at 31 December	1,785,544	1,189,938
Average	1,725,990	1,470,486
Minimum	101,320	597,814
Maximum	4,657,650	4,378,998

Operational Risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. It thus excludes strategic and reputation risks but includes legal and regulatory risks.

The Group-wide operational risk policy outlines the approach and the governance structure for the monitoring and managing of operational risks and to ensure compliance with the Basel II requirements. The Group's operational risk framework, as summarized below, is progressively being implemented across all group entities.

As part of the implementation of the Basel II requirements, the Group's risk management process enables identification, assessment, reporting, management and monitoring of the Group's operational risks. Line management has primary responsibility for managing operational risks with the executive committee having overall authority to sanction operational risks and approve operational risk mitigation measures.

The Group has set-up the Group operational risk function within the Group risk control unit to establish the framework and governance structure set out in the operational risk policy. This function develops and implements the methods for the identification, assessment and monitoring of operational risks throughout the Group and provides regular and comprehensive reporting on operational risks to Senior Management. The function supports business and support units to monitor and manage their individual operational risks. Furthermore, Group operational risk also provides analyses and reports on operational risks to Senior Management and conducts independent oversight and monitoring of risks and mitigating measures.

The governance structure of operational risk is regulated through 'Group Operational Risk and Compliance Committee' (ORCC). The ORCC reviews the Group's operational risks on a periodic basis, and the effectiveness of existing controls to mitigate these risks. The ORCC reports to EXCO and requires Senior Management involvement from every unit and major entity of the Group.

47 RISK MANAGEMENT (continued)

Operational Risk (continued)

The Group has implemented the following processes to proactively monitor and manage operational risks:

- For the assessment of any operational risk of a new or amended product or process prior to its implementation, the Group established the Control Risk Self Assessment (CRSA) process. This enables identification and mitigation of operational risks prior to the introduction of new products, processes, systems or any major change initiatives.

- The operational risk review process is aimed at supporting each unit in the Group through a series of facilitated workshops to identify and quantify operational risks and develop unit-specific risk profiles. Operational risk reviews are carried out on a regular basis to identify the risks inherent in each area, analyze them in terms of their severity and likelihood, and develop mitigation strategies for these risks. Each line manager maintains the risk profile, which summarizes the top risks identified in the workshop and is responsible for implementing the risk mitigation action plans.

- The internal loss data collection process enables an effective and efficient management of the risk, i.e. analyzing the root cause, improving controls and mitigating the loss potential. The responsibility for the identification of and notification on operational risk events lies with the line managers of the business and support units, i.e. where these events are encountered. The operation risk management function supports the respective units in the analysis of operational risk events and provides Group-wide reporting on these events.

- IT Security processes ensure confidentiality, integrity and availability of Group's information, information systems and its resources through the selection and application of appropriate safeguards. The Group operational risk function ensures that security processes are integrated with strategic and operational planning processes to secure the organization's mission.

- A comprehensive insurance program is in place as an integral component of the Group's operational risk mitigation strategy. The Group Business Continuity Management (BCM) policy enables the implementation of measures to protect the Group's resources and maintain the availability of business operations in the event of a disaster.

Liquidity Risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they come due, known as structural funding risk, or because of the inability to convert assets into cash, known as market liquidity risk.

Liquidity Risk Management - Liquidity risk is managed in a conservative and forward looking manner, employing sound practices and process for risk identification as part of the ALCO/ALM process and using a number of monitoring methodologies (e.g. cash flow mismatch/liquidity gap, liquid asset cushion, funding capacity, funding diversification and deposit concentration).

An independent function within risk is responsible for liquidity measurement, monitoring and control and reports risk exposures directly to the Group's ALCO.

The primary measure employed for risk management is using mismatch analysis between assets and liabilities for different periods with a sharper focus on shorter time frames. These gap reports are based on contractual cash flow at record level, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments.

The Group's ALCO has supporting policies, limits and processes in place to control the flow of funds with its subsidiaries. The subsidiaries coordinate their capital and wholesale market funding at optimal pricing through the Treasury, under the oversight and direction of the Group's ALCO.

47 RISK MANAGEMENT (continued)

Liquidity Risk Monitoring:

All funded liquidity risk positions are monitored and evaluated by risk management to ensure that future cash inflows are adequately matched to the maturity of liabilities over the short term and by major currencies.

Estimation of funding capacity: The ALCO reviews the surplus funding capacity, and its sensitivity to any key event, based on the judgment of the Group Treasury function that is responsible for maintaining different funding sources.

Funding diversification and deposit concentrations: The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. The Group's approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times. The Group ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs; and
- Investor diversification.

Liquidity Risk Mitigation - The Group ALCO, in conjunction with the Treasury is primarily responsible for implementing the Funding Liquidity management strategies on structural positions. Other business units contribute to overall structural liquidity management through product mix strategies and targets.

The Group ALCO, in line with the best practices, recognises that users and providers of liquidity as a resource should be incentivized in an equitable and transparent manner. This is achieved through the Funds Transfer Pricing (FTP) System which is aligned to charge/compensate for liquidity of the underlying assets or structural nature of underlying liabilities. These processes are embedded into product pricing decisions and performance measurement systems. Group Risk Management in conjunction with Treasury and Finance manages and calibrates the FTP system for the Group, in the light of business strategies or market movements.

47 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

The table below summarizes the maturity profile of the Group's assets and liabilities:

31 December 2008

ASSETS	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
Cash and deposits with Central Bank	15,832,173	875,021	-	-	-	16,707,194
Due from banks	5,805,384	1,659,981	480,732	181,120	1,125	8,128,342
Loans and receivables	86,449,715	16,752,683	25,771,354	22,744,234	36,288,803	188,006,789
Islamic financing and investment products	6,342,204	4,125,655	3,798,271	3,605,141	3,052,102	20,923,373
Trading securities	23,277	9,043	59,288	152,837	-	244,445
Investment securities	3,360,986	1,390,827	6,133,494	4,693,143	3,812,351	19,390,801
Investments in associates and joint ventures	-	-	-	-	2,924,808	2,924,808
Investment properties	-	-	-	-	796,107	796,107
Property and equipment	1,392,945	21,026	235,383	861,602	281,662	2,792,618
Goodwill and Intangibles	-	91,963	183,925	142,505	5,720,938	6,139,331
Positive fair value of derivatives	5,635,759	100,599	209,591	73,537	304,008	6,323,494
Customer acceptances	2,526,150	245,343	10,710	4,772	73,679	2,860,654
Other assets	7,175,720	-	-	-	-	7,175,720
TOTAL ASSETS	134,544,313	25,272,141	36,882,748	32,458,891	53,255,583	282,413,676

47 RISK MANAGEMENT (continued)

MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued):

31 December 2008

	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
LIABILITIES						
Customer deposits	112,397,766	15,737,686	5,976,578	5,776,264	91,510	139,979,804
Islamic customer deposits	9,876,811	7,118,456	4,783,551	556,319	-	22,335,137
Due to banks	45,953,596	2,435,312	-	36,730	-	48,425,638
Repurchase agreements with banks	3,260,419	-	-	-	-	3,260,419
Debt issued and other borrowed funds	2,968,890	2,867,679	8,866,740	8,796,392	5,303,129	28,802,830
Sukuk payable	-	-	-	1,267,185	-	1,267,185
Negative fair value of derivatives	4,978,173	92,074	198,219	207,260	278,741	5,754,467
Customer acceptances	2,526,150	245,343	10,710	4,772	73,679	2,860,654
Other liabilities	3,853,898	-	-	-	111,723	3,965,621
Total equity	-	-	-	-	25,761,921	25,761,921
TOTAL LIABILITIES AND EQUITY	185,815,703	28,496,550	19,835,798	16,644,922	31,620,703	282,413,676
OFF BALANCE SHEET						
Letters of Credit and Guarantees	26,004,909	10,996,271	28,654,189	2,853,316	140,266	68,648,951
31 December 2007						
ASSETS	121,750,313	30,176,603	39,995,009	21,072,025	40,821,693	253,815,643
LIABILITIES	159,638,521	25,144,489	27,691,010	13,958,565	27,383,058	253,815,643
OFF BALANCE SHEET ITEMS	11,750,350	10,258,139	28,302,523	3,031,265	128,036	53,470,313

47 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request repayment on the earliest date, the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2008

	Carrying amount AED 000	Gross nominal outflows 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 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Customer deposits	139,979,804	(142,315,267)	(112,919,048)	(16,418,520)	(9,266,782)	(3,619,407)	(91,510)
Islamic customer deposits	22,335,137	(22,341,362)	(9,790,115)	(5,345,665)	(5,429,245)	(1,648,767)	(127,570)
Due to banks	48,425,638	(48,579,160)	(46,081,334)	(2,451,995)	(8,721)	(37,110)	-
Repurchase agreements with banks	3,260,419	(3,275,519)	(2,146,753)	(1,125,015)	(3,751)	-	-
Debt issued and other borrowed funds	28,802,830	(31,288,639)	(2,988,968)	(3,152,010)	(9,843,576)	(9,302,979)	(6,001,106)
	242,803,828	(247,799,947)	(173,926,218)	(28,493,205)	(24,552,075)	(14,608,263)	(6,220,186)

47 RISK MANAGEMENT (continued)

As at 31 December 2007

	Carrying amount AED 000	Gross nominal outflows 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 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Customer deposits	126,134,743	(128,056,412)	(121,359,383)	(6,631,468)	(64,588)	(973)	-
Islamic customer deposits	14,541,970	(15,157,248)	(4,354,382)	(6,385,680)	(4,417,186)	-	-
Due to banks	46,553,648	(47,110,570)	(43,252,281)	(3,536,350)	(300,268)	(21,671)	-
Repurchase agreements with banks	5,610,043	(5,743,474)	(2,512,708)	(3,230,766)	-	-	-
Debt issued and other borrowed funds	25,406,321	(29,986,919)	(1,673,199)	(1,570,577)	(8,823,926)	(14,917,182)	(3,002,035)
	218,246,725	(226,054,623)	(173,151,953)	(21,354,841)	(13,605,968)	(14,939,826)	(3,002,035)

47 RISK MANAGEMENT (continued)

Interest Rate Risk in the Banking Book

The Group measures, monitors and manages the interest rate risk in its banking book that constitutes repricing risk, yield curve risk, basis risk, and optionality, as appropriate.

The Group's ALCO, which consists of the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, GM Treasury and Markets as well as of the heads of the business units, is the central authority for identifying and managing such risk. The ALCO holds ultimate responsibility for the establishment, review and approval of the Group's banking book interest rate risk policy, guidelines, and limits, approved by the Board. The ALCO holds monthly meetings for a complete review of the Group's market risk positions, including the interest rate risk in its banking book.

Group risk management ensures that data inputs are adequately specified (commensurate with the nature and complexity of the Group’s holdings) with regard to rates, maturities, re-pricing, embedded options, and other details to provide a reasonably accurate portrayal of changes in economic value or earnings.

Group risk management also ensures that systems assumptions (used to transform positions into cash flows) are reasonable, properly documented, and stable over time. Material changes to assumptions are documented, justified, and approved by Group ALCO.

The primary techniques used for measuring a bank's interest rate risk exposure is through ‘Gap Analysis’ with a repricing schedule that distributes interest-sensitive assets, liabilities, and off balance sheet positions into “time bands” according to their maturity (if fixed-rate) or time remaining to their next repricing (if floating rate). These schedules generate indicators of the interest rate risk sensitivity of both earnings and economic value to changing interest rates.

To assess interest rate risk in the banking book, the Group applies several concepts and methods. For measuring overall sensitivity in the banking book, the Group conducts stress tests by simulating 200 basis point parallel shocks to the yield curve(s). To account for mid to long term trends in the economic environment, the Group conducts scenario analyses by forecasting future interest rates and its impact on its net interest income. To measure and manage interest rate risk on a day-to-day basis, the Group has established limits based on the PV 01 (Price Value of a Basis Point). In addition to repricing gap analysis, separate investment and funding strategies are prepared and tested against the limits prior to execution, for restructuring the balance sheet. Separate analysis is done on the interest sensitivity of the hedged positions of the Group. The interest rate gaps and sensitivity tests are measured on a monthly basis by Group Risk Control.

47 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis:

31 December 2008:

	Less than 1 month AED 000	Over 1 month to 3 months AED 000	Over 3 months to 6 months AED 000	Over 6 months to 1 year AED 000	Over 1 year AED 000	Non interest bearing AED 000	Total AED 000
ASSETS							
Cash and deposits with Central Bank	5,255,815	2,575,000	875,000	-	-	8,001,379	16,707,194
Due from banks	3,714,281	3,709,666	195,847	452,944	20,659	34,945	8,128,342
Loans and receivables	108,264,161	42,168,225	21,064,435	1,925,420	14,457,151	127,397	188,006,789
Islamic financing and investment products	4,257,425	1,986,490	3,690,938	1,857,996	9,130,524	-	20,923,373
Trading securities	459	50,176	69,363	83,168	-	41,279	244,445
Investment securities	3,502,473	3,765,368	4,199,285	3,546,832	525,835	3,851,008	19,390,801
Investments in associates and joint ventures	-	-	-	-	-	2,924,808	2,924,808
Investment properties	-	-	-	-	-	796,107	796,107
Property and equipment	-	-	-	-	-	2,792,618	2,792,618
Goodwill and Intangibles	-	-	-	-	-	6,139,331	6,139,331
Positive fair value of derivatives	6,323,494	-	-	-	-	-	6,323,494
Customer acceptances	-	-	-	-	-	2,860,654	2,860,654
Other assets	-	-	-	-	-	7,175,720	7,175,720
TOTAL ASSETS	131,318,108	54,254,925	30,094,868	7,866,360	24,134,169	34,745,246	282,413,676

47 RISK MANAGEMENT (continued)

Interest Rate Repricing Analysis (continued):

31 December 2008:

	Less than 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year	Non interest bearing	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
LIABILITIES AND EQUITY							
Customer deposits	66,722,931	12,547,954	6,842,706	9,202,732	11,652,700	33,010,781	139,979,804
Islamic customer deposits	4,016,268	5,849,730	2,526,986	4,916,158	566,895	4,459,100	22,335,137
Due to banks	20,821,541	24,117,506	1,841,318	390,189	1,000,000	255,084	48,425,638
Repurchase agreements with banks	3,260,419	-	-	-	-	-	3,260,419
Debt issued and other borrowed funds	-	5,511,000	20,584,092	1,972,938	734,800	-	28,802,830
Sukuk payable	-	-	1,267,185	-	-	-	1,267,185
Negative fair value of derivatives	5,754,467	-	-	-	-	-	5,754,467
Customer acceptances	-	-	-	-	-	2,860,654	2,860,654
Other liabilities	-	-	-	-	-	3,965,621	3,965,621
Total equity	-	-	-	-	-	25,761,921	25,761,921
TOTAL LIABILITIES AND EQUITY	100,575,626	48,026,190	33,062,287	16,482,017	13,954,395	70,313,161	282,413,676
ON BALANCE SHEET GAP	30,742,482	6,228,735	(2,967,419)	(8,615,657)	10,179,774	(35,567,915)	
OFF BALANCE SHEET GAP	(1,812,996)	(14,784,121)	1,178,825	5,278,193	10,140,099	-	
INTEREST RATE SENSITIVITY GAP – 2008	28,929,486	(8,555,386)	(1,788,594)	(3,337,464)	20,319,873	(35,567,915)	
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2008	28,929,486	20,374,100	18,585,506	15,248,042	35,567,915	-	
CUMULATIVE INTEREST RATE SENSITIVITY GAP – 2007	(9,818,162)	(22,511,722)	(14,415,274)	(17,692,401)	29,490,720	-	

47 RISK MANAGEMENT (continued)

Repricing of assets and liabilities has been determined on the basis of contractual pricing or maturity dates, whichever dates are earlier.

The off balance sheet gap represents the net notional amounts of off balance sheet financial instruments such as interest rate swaps which are used to manage interest rate risk. Interest rate swaps that have been used for asset and liability management purposes to hedge overall exposure to interest rate risk are included separately as off balance sheet gaps. The allowance for impairment losses is deducted on a pro-rata basis over the various repricing profiles of loans and receivables.

The Group is presently running a relatively low level of interest rate risk in the banking book (less than 2% - 3% of total capital). The month over month limits are monitored against conservative PVO1 limits.

Modeled impact of interest rate shocks on the net interest income:

	As at 31 December 2008		As at 31 December 2007	
	Amount AED 000	Variance AED 000	Amount AED 000	Variance AED 000
Rates Up 200 bp	7,086,533	284,854	2,607,215	(35,960)
Base Case	6,801,679	-	2,643,175	-
Rates Down 200 bp	6,064,510	(737,169)	2,578,551	(64,624)

Reputation Risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. Reputation risk also includes the threat to the brand value of a financial institution.

Reputation risk can arise as a consequence of failures with a strong negative perception of clients, shareholders, creditors or the public. Therefore, the Group has established and implemented robust processes and controls to ensure a positive perception of the Group.

Regulatory/Compliance Risk is the risk of sanctions and/or financial losses due to the failure to comply with applicable laws, regulations or guidelines.

This risk type is considered and managed as part of operational risk. However, the Group has an independent compliance function within risk management, with necessary mandate and authority to enforce compliance on a Group wide basis. This includes compliance within various jurisdictions where the Group operates and active monitoring and reporting on Anti Money Laundering (AML) issues. The Group has also a well embedded “Know-Your-Customer” (KYC) policy at the operational level.

Concentration Risk is the risk related to any single exposure or group of exposures with the potential to produce losses large enough to threaten a bank’s financial health or ability to maintain its core operations.

The Group recognizes the importance of concentration risk and strictly adheres to the individual and aggregate regulatory set percentage limits for the Group’s capital base. Corporate credit follows concentration risk in areas like country, industry and individual level concentration. Retail credit follows concentration level by employer, nationality and income segments. There are no automatic triggers for policy changes or early actions, but these concentration indicators are closely tracked and manually monitored on quarterly basis to ensure that the portfolio is free of major concentration risks.

47 RISK MANAGEMENT (continued)

Concentration Risk (continued)

At present there is no specific capital requirement for concentration risk.

Within the new economic capital framework, concentration risk will be considered implicitly. Thereby we aim to pursue an integrated approach in which we explicitly include single name as well as sector concentrations within our credit portfolio model. Therefore, this risk type will not be treated as a stand-alone risk and, hence, we do not quantify a specific capital charge.

Group's capital management policies

The Group understands capital adequacy as the ability to cover unexpected losses ("capital demand"), i.e. a negative deviation from business-as-usual conditions, by our available financial resources ("capital supply").

We consider the Group to be adequately capitalized if the capital supply exceeds the capital demand as well as a certain capital buffer. The capital buffer is held to support the capital demand of future business (e.g. new business, acquisitions) as well as the normal cyclicality of capital demand due to exogenous effects.

Capital adequacy is assessed at a Group level in line with the consolidated balance sheet from which the capital supply is derived. However, the actual measurement of capital demand is carried out bottom-up, i.e. we determine the risk contributions on a more granular level (e.g. on business unit level). Furthermore, the risk forecasting and the planning process are aligned to this level of detail as an instrumental part of our risk philosophy.

The Group has implemented an integrated process to forecast the Group's risk profile in which we derive our future capital adequacy from the forecasts of our future business profile. This process does not only consider business-as-usual conditions but also positive or negative deviations from the planned business and risk forecasts.

In summary, the Group has set up an annual integrated risk forecast which provides an analysis of the Group's capital adequacy during the planning horizon (2 years). The actual assessment of capital adequacy in terms of internal economic capital is carried out quarterly and the corresponding results are checked against the latest version of the integrated risk forecast.

The application of stress testing in the context of Internal Capital Adequacy Assessment Process is twofold. On the one hand, it is applied to the current assessment of capital adequacy. In this case, there is no specific capital charge due to stress testing. However the results are used to assess the outcome of the Economic Capital models and may lead to more conservative parameterizations of the models.

On the other hand, stress tests are applied on the forward-looking assessment of the Group's capital adequacy within the planning horizon in order to challenge the results under normal market conditions. In this case, we consider the impact on capital demand as well as on capital supply under (plausible) macroeconomic scenarios.

47 RISK MANAGEMENT (continued)

The Group is active only in business areas in which the Group has outstanding expertise and understands all relevant aspects, processes and peculiarities of the business. This expertise comprises in particular the ability to measure risks associated to individual transactions, portfolios or business lines. The Group believes that competence and commitment to outstanding performance are the keys for efficiently serving clients and for enduring customer satisfaction and preserving shareholder value.

Any business activity is associated with a certain amount of risk which has to be taken in order to generate profits beyond the risk-free rate. The Group only seeks and accepts exposure to risks that feature the possibility of earning an adequate return. Rather than avoiding risk in general, the Group aims at optimizing its risk-return profile. The measurement of success has thus to been defined on a risk-adjusted basis.

The business model of the Group is based on a series of fundamental principles ensuring the prosperity, growth and profitability of the Group as a whole. These principles represent the qualitative aspects of the risk appetite statement. All quantitative target ratios resembling the Group's risk appetite have to be fulfilled on an ongoing basis. Additionally, the Pillar I ratio, the Tier I ratio and the capital adequacy ratio (CAR) should target to achieve the ratios as forecasted in the Group's forward looking business plan.

In 2008, the Group initiated a complete reorganising of its capital adequacy assessment process based on economic capital to further strengthen the Group's capability to quantify and manage its risk profile on the portfolio level and to fulfill the regulatory requirements of Basel II Pillar II specified by The Central Bank of the United Arab Emirates.

As requested by the Central Bank of the United Arab Emirates, the Group compiled a Pillar II report for the financial year 2008 based on already existing methodologies. The next Pillar II report, capturing the period of 2009 till 2010, is due for regulatory submission in the first half of 2009.

In order to enhance its Pillar II efforts, a comprehensive economic capital framework for the Group is under implementation. It provides a more sophisticated analysis of its capital adequacy profile than the Pillar I methodologies as applied so far. The implementation of this framework is split into two phases:

- Tactical phase: This phase covers the initial setup of Internal Capital Adequacy Assessment Process based on economic capital and concludes with the compilation of a Pillar II report for the planning period 2009–2010.

- Strategic phase: This phase, targeting the 2010 – 2011 planning cycle, comprises the refinement of model parameterization and quantification approaches, and an integration of economic capital into the Group's performance measurement and management framework.

48 COMPARATIVE FIGURES

In addition to the restatements relating to goodwill and intangibles set out in note 13, certain other comparative figures have been reclassified and restated where appropriate to confirm with the presentation and accounting policies adopted in these financial statements.