Annual Report 2008

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mashreq المشرق

Mashreq bank
Annual Report 2008

His Highness (Late) Sheikh Zayed Bin Sultan Al Nahyan

May his soul rest in eternal paradise

His Highness (Late) Sheikh Maktoum Bin Rashid Al Maktoum

May his soul rest in eternal paradise

His Highness Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates and Ruler of Abu Dhabi

His Highness Sheikh Mohammed Bin Rashid Al Maktoum

Vice President & Prime Minister of the United Arab Emirates and Ruler of Dubai

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Board of Directors

Chairman
Mr. Abdulla Bin Ahmad Al Ghurair

Vice-Chairman
Mr. Ali Rashed Ahmad Lootah

Director & Chief Executive Officer
H.E. Abdul Aziz Abdulla Al Ghurair

Directors
Mr. Mohamed Abdulla Ahmed Al Ghurair
Mr. Abdulla Mohamed Ibrahim Obaidalla
Mr. Abdul Rahman Saif Ahmad Al Ghurair
Mr. Majid Saif Ahmed Al Ghurair

Chairman's Report

Mr. Abdulla Bin Ahmad Al Ghurair
Chairman

2008 will go in the annals of history as the most eventful year for the global economy, particularly, the financial services industry. The year started with a cautious optimism but by the third quarter, the scenario had changed drastically. The worsening liquidity crunch and unabated downturn in the property market in the US had triggered a global financial crisis which swept away many giant financial institutions in its wake. Stock markets the world over recorded their worst ever losses. Commodity prices which had hit an all time high plummeted to new lows impacting the major commodity exporting economies. For most of OECD economies, the looming threat of recession became a reality by the end of the year. Government intervention and support by the regulators became a norm across the markets. Countries which have until recently been the biggest proponent's of the market economy and the worst critics of government intervention were rescuing their financial institutions by taking equity stakes in them. In short, by end of the year, the global financial landscape had changed forever.

The impact of this global meltdown was so severe that the UAE economy which until middle of 2008 had remained relatively unscathed started showing signs of sluggishness across the sectors. As access to international money markets become more restricted, the liquidity in the UAE started drying up and a visible downturn hit the UAE banking sector. The Ministry of Finance took prompt action to rectify the situation and provided stimulus to the economy by providing AED 50 Billion of long-term funding to the UAE banks. The UAE Central Bank allocated AED 50 Billion to inject liquidity in the market by providing repos facility against market securities held by the banks and allowing overdraft against cash reserves held by the banks.

The failure of Lehman Brothers and huge losses reported by large global banks eroded public confidence in the financial institutions and created near panic situation across the world necessitating confidence building measures by Regulators. The Government of UAE responded quickly and announced a general guarantee for all customer deposits and interbank lending within the UAE. Prompt and decisive action by the Ministry of Finance and the UAE Central Bank helped calm down market sentiments and ensured that normal market conditions prevail in the UAE.

I am pleased to report that in the midst of this unprecedented turmoil, your bank performed well. Net Interest Income went up by 39% and Fee and Other Income excluding Investment Income went up by 19%. Due to the steep decline in securities value and lack of liquidity in the market, investment activities resulted in a net loss of AED 335 Million against a profit of AED 488 Million in 2007. Inspite of a significant swing in the Investment Income, your bank was able to register a growth of 3.5% in Gross Revenue reaching AED 3.98 Billion.

The operational and control infrastructure built in 2007 to support the planned growth had a full year impact of pushing up costs by 33% to AED 1.9 Billion. The high inflation of 2008 impacted occupancy and administration costs which also contributed to the growth in expenses.

Inspite of the market downturn, our Advances portfolio quality held very well and the cost of credit i.e. net write-offs and specific provisions remained low at 0.8% of average Advances. Further, as in previous years, we added another AED 107 Million to general provisions bringing the total General Provisions to AED 762 Million. This significant amount is held as a cushion to overcome the impact, if any, of the economic downturn. The Net Profit after risk cost, tax and minority interest reached AED 1.64 Billion. The Net Profit as compared to previous year has declined by 13.6%. However, in the economic conditions prevailing in the market and significant decline in the investment revenue, it is an outstanding performance which reflects the intrinsic strength of the bank and excellent health of core banking business.

The Total Assets of the bank rose by 6.4% as compared to 2007 and reached AED 93 Billion. The growth in Customer Advances including Islamic Financing was significant at 55.8% to reach AED 55 Billion. Due to tight liquidity conditions, the growth in Customer Deposits was more modest at 6.6%. The unprecedented growth in Advances for the first time pushed Advances to Customer Deposits ratio to 107%. However, Advances to Customer Deposits and Medium Term Loans ratio is at a relatively comfortable level at 97%. The contribution to Shareholders Fund by the current year profit was off-set by negative growth in investment revaluation keeping the growth in the Shareholders Equity to a modest 2%.

Due to the increase in risk weighted assets and a relatively flat equity base, the bank's Capital Adequacy ratio at 14.08% fell below last year's 17.76% but is still 40% more than the limit prescribed by the UAE Central Bank. Your Board recommends a Cash Dividend of 10%.

UAE Economic Environment

The unprecedented growth of the UAE banking sector from 2005 to 2008 period was a reflection of the buoyant economic climate and globalization of the market place. During this period, Customer Deposits of the UAE banking sector went up by Compounded Annual Growth Rate (CAGR) of 30% whereas Advances grew at a faster pace of 37%. The Loans and Advances in the banking system went up from 81% of GDP in 2005 to 125% of the estimated GDP in 2008. This strong expansion of credit led to an overheating of the economy making it vulnerable to the effects of slowdown in the global economy.

Oil prices which peaked in July 2008 at around US $150 a barrel fell to below US $40 a barrel by December on recessionary fears, and will lead to a narrowing of the budget surpluses in the GCC economies. The construction sector which had been the major growth engine during the last few years slowed down significantly. Housing market suffered a major setback with the withdrawal of 2 major mortgage providers. Overall, the demand for residential and commercial real estate declined sharply. The Dubai Financial Market had its worst year as market index declined by over 70% during the year.

Inspite of this economic upheaval, it is estimated that the UAE GDP has grown at a rate of 9-10 percent during 2008 surpassing the AED 800 Billion mark. Looking at the current economic situation and future oil prices, the growth forecast for 2009 range from 0.5% to 2.8%. Notwithstanding the lower oil prices and production cuts, UAE is expected to generate a substantial current account surplus during 2009. The inflation forecast for 2009 at 2.5% is substantially lower than previous years which will be the most important positive development during 2009.

A federal level balanced budget for 2009 was approved by the cabinet in October 2008 with a total outlay of AED 42.2 Billion.

IMPORTANT INDICATORS

	2004	2005	2006	2007	2008
ADVANCES TO CUSTOMER DEPOSITS	77.0%	66.6%	77.1%	73.2%	**106.9%**
EQUITY TO TOTAL ASSETS	16.4%	17.8%	14.0%	12.0%	**11.5%**
RETURN ON AVERAGE SHAREHOLDER'S EQUITY (AFTER-TAX)	17.0%	28.7%	21.5%	22.4%	**16.7%**
RETURN ON AVERAGE ASSETS (AFTER-TAX)	2.5%	4.4%	3.0%	2.6%	**1.8%**
EFFICIENCY RATIOS	33.1%	25.0%	36.5%	36.6%	**47.0%**
CAPITAL ADEQUACY RATIO (AS PER CB)	17.9%	19.7%	17.5%	17.8%	**14.1%**

The proposed increase of 21% in budgeted expenditure for 2009 was well received by the market and seen as a major confidence building measure. The UAE Consolidated Financial Accounts which have registered significant surpluses for the last few years are expected to continue the trend in 2009 albeit at a reduced level.

The Abu Dhabi Vision 2030 document was released in early January which was a morale booster. The Government of Abu Dhabi is determined to diversify the economy and reduce oil contribution to GDP from 58% in 2008 to 53% in 2012. During the same period the GDP is expected to grow at 7% CAGR. Other than oil and petrochemicals, nine industry sectors have been identified to form the Emirates' engines of economic growth and diversification. Investment in oil and petrochemical will continue to be the backbone of the growth. Crude production capacity is to be enhanced to 3.5 Million barrels per day over the next 10 years. Refining capacity is to be tripled from the existing level of 485000 barrels per day. A massive expansion plan has been approved for petrochemicals industry. The Borouge 2 project will be completed by 2010 which will more than triple the ethylene production. Similarly, urea production at Ruwais Fertilizer Company will be increased by 50%.

The annual 2009 budget for the emirate of Dubai was approved in the first half of January. Investment expenditure is projected to grow by 33% to AED 12 Billion. Overall, public spending will increase by 42% to register the first ever deficit of AED 4.2 Billion. According to the Department of Finance, this deficit will be bridged by year-end through government borrowings. The increased spending particularly on infra-structure projects will have a very positive impact on the overall economic climate of Dubai.

Despite the gloomy global economic outlook, I can confidently say that the UAE economy will rebound sooner than expected. The banking sector may not see the unprecedented growth of the past few years but will certainly return to normal growth levels after a marginal decline in 2009.

2009 Plans

Planning in uncertain times is indeed a challenge. Our strategic plan which was developed last year with certain economic assumptions required a revision in the changed economic climate. With our flexible planning model we keep a close eye on macro and micro economic indicators and adjust our plans to match the market reality. Looking at the current scenario we have planned a modest growth in our revenue next year. Cost Management and Risk Management will be our main focus in 2009. I am happy to say that we had invested well in risk management capabilities in the past which will ensure that we manage stress within our portfolios within acceptable tolerance limits. Fee based products and services will receive the utmost attention whereas increase in risk assets will be well controlled. Mobilisation of deposits and liability management will be the top priority for 2009. The tight liquidity in the market pushed our liquidity ratios below the target levels in 2008. However, we plan to reverse the situation in 2009. We have made plans to manage this short-term unusual situation without losing sight of our long-term goals.

On behalf of the board, I would like to congratulate the CEO and the management team for their contribution in posting an excellent performance in the given difficult conditions. It is due to their commitment and foresight that your bank has virtually been unaffected by the global economic downturn. We would also like to thank the Government of UAE, the Central Bank and our customers for their continued support.

Thank you.

Abdulla Bin Ahmad Al Ghurair
Chairman

Chief Executive Officer's Review

H.E. Abdul Aziz
Abdulla Al Ghurair
Chief Executive Officer

The Group profit for fiscal 2008, clouded by the adverse investment climate does not truly reflect the successful inroads made in strategic areas and the strong performance of our core banking business. Corporate banking, Islamic banking, Retail banking and Financial Institutions all had a successful year with sizeable growth in assets and corresponding revenue. Nevertheless, the global credit crunch and negative sentiments across all markets created some stress in our investment portfolio which brought the Group profitability down to marginally below the previous year's mark.

A revamp of the retail strategy with renewed focus on select customer segments and products resulted in further diversification and enhancement of our market share. Our Corporate and Commercial banking business extended its penetration across all customer segments and product lines, while the Private Banking business was repositioned for growth. During the year, we not only launched Badr Business Centres at select locations across the country but also firmly established Badr as a premium brand for providing Islamic Banking solutions for all business banking needs. Strategic Initiatives for improvement of sales effectiveness and cross-sell were successfully launched, improving productivity and cross sell revenues across businesses and product lines. Risk management system upgrades and induction of highly skilled professionals in the team ensured that our risk management capabilities maintained cutting-edge standards and practices.

Our subsidiary, Oman Insurance gained new heights and became the first company in the UAE to reach a premium income of AED 2.10billion growing by 41% over the previous year. The company operates in both General Insurance Segment and the Life & Medical Insurance Segment. Traditionally General Insurance Segment has been predominant in the portfolio of the Company but with the recent growth in Life and Medical Insurance portfolio's it now constitutes nearly 25% of the overall premium income of the company. The company is also expanding in the region with branches set up in Muscat, Sultanate of Oman and Doha, Qatar during 2008.

Mashreq's commitment to quality and quest for continuous improvements has always been acknowledged by the market and from time to time recognized through industry awards. During 2008 Mashreq was again named the 'Best Bank in the UAE' by Euromoney for the fourth time in the last 16 years. Our management depth and capabilities, high asset quality, diversified business mix and world class risk management capabilities have always been commented favorably by all rating agencies.

I am happy to state that in these turbulent times also our foreign currency long-term ratings have been reconfirmed at 'A2' by Moody's Investor Services, 'A' by Standard and Poor's, 'A+' by Fitch and 'A+' by Capital Intelligence.

The ratings outlook for future and financial strength ratings have also been reconfirmed at the current levels.

Retail Banking

The Retail Banking Division made solid progress in 2008.

Early in the year, we launched 'Programme Najah' (meaning "success" in Arabic), a comprehensive transformation programme with a clear objective to operationalise the Brand Promise to "Open the Way" for our retail customers by providing a more distinctive, hard to copy customer experience based on our core values of openness, transparency, boldness, relationship focus and individual responsibility.

Programme Najah has focused the Retail Banking Division on a clear objective to make Mashreq "the most convenient bank in the UAE" by becoming more accessible, faster and by providing an improved range of products and services which customers really value.

Through this programme, Mashreq has committed itself to:-

- Offer the widest choice of how, where and when customers can deal with us
- Work quickly and accurately because we respect and value of customer's time
- Offer refreshingly simple and value-for-money products and services
- Communicate in an open and easy to understand manner
- Welcoming customer feedback and responding promptly to any concerns

To support the programme we designed and built a proprietary "Customer Convenience Model" which allows the Bank to consistently monitor more than 20 key performance metrics.

To improve our physical network accessibility, we expanded the Mashreq branch network in the UAE from 47 branches to 60 branches and opened 3 new customer service units. Our ATM and CCDM network was also modernized and expanded.

In our Wealth Management business, our Mashreqgold priority banking proposition continued to be well received and we significantly increased our Mashreqgold customer base to more than 9000 priority customers. A strategic partnership with Yes Bank was concluded to offer our NRI Mashreqgold customers a seamless and convenient priority proposition in India through their Mashreqgold Relationship Manager.

Our deposit mobilization activities and margins were impacted in the second half of the year by the general tightening of liquidity in the UAE. But we are optimistic that a stabilization of the liquidity environment will allow improved performance in the year ahead.

In our Retail Assets business we had a strong year with continued growth in our personal, auto and mortgage loan businesses. Market conditions in the residential property market have become more uncertain; however Mashreq has always positioned itself as a responsible lender and our prudent and disciplined approach to growing our retail asset portfolio will enable us to continue to grow profitably.

Our relatively new SME Banking business delivered an outstanding contribution. The business has grown rapidly during the year and enabled Mashreq to become a market leader in the Small and Medium Enterprise segment in the UAE. As we develop further the embedded advantage of a close relationship between our enlarged branch network and the communities in which those branches operate, we are confident that "SME Banking from Mashreq" will continue to deliver strong growth in the year ahead.

In the final quarter of the year a decision was taken to refocus the Osool Finance Company business as a specialized Commercial Vehicle Finance, Leasing and Factoring business and to service the routine needs of our SME customer base only through the Mashreq brand and branch network. Plans have been developed and will be implemented next year to refresh the Osool brand to better reflect its new and specialized focus.

The Credit Card business also delivered an outstanding performance with strong volume and revenue growth in the merchant acquiring business and an extremely strong launch of our new Etisalat Mashreq co-branded Credit Card. Mashreq has now become the largest issuer of credit cards in the UAE. As part of our growth strategy, Mashreq signed a Letter of Intent with China Union Pay to acquire and issue China Union Pay branded credit and debit cards for the first time in the UAE.

In our International Retail business we established a Greenfield Network of 10 new branches in Egypt and our plans to develop this important new retail franchise are well advanced. We continued to improve retail business performance in Qatar under a new management team and plans to open from a single branch location in Kuwait as well as expand our retail activity in Bahrain were developed.

Corporate and Investment Banking

2008 has been another spectacular year for the Corporate and Investment Banking Group. The momentum built up over the years continued to expand our franchise and client base, generating good revenue growth.

Traditional areas of business, such as contractor and trade finance have continued to perform well, supporting our clients in their expansion and addressing their banking needs. At the same time, we ensured that our clients are provided with our complete product suite including cash management, investment banking, factoring, Islamic products, asset management, foreign exchange, derivatives and other hedging instruments.

We made further inroads in Abu Dhabi and Qatar by strengthening our presence and registering robust growth. In parallel, our business finance operation, focusing on the small and middle market segment of the economy, increased their market penetration driven by focused relationship management.

Investment banking facilitated client access to debt and equity capital markets. The division saw a strong growth in structured finance and debt syndication business in the first half of the year. The Bank was involved as a mandated lead arranger in 35 deals helping raise debt aggregating to US$ 35.7 billion and established itself as the leading regional bank in syndicated loans originating in Middle East and North Africa. We successfully executed a number of landmark transactions during 2008 as underwriter and book-runner, including US$ 5 billion syndicated facility for Dubai World, AED 3 billion debut syndicated facility for Du (Emirates Integrated Telecommunication) and US$ 2.25 billion term loan facility for Orascom Telecom Holding among others. We further supplemented our loan arranging capabilities during the year by setting up a dedicated facility agency desk.

We re-launched our Private Banking offering this year, which caters to meet the ever increasing needs of our clients for more sophisticated investment solutions. This was a result of our investments in human resources, technology & infrastructure for this business.

The second half of this year was affected by the global turmoil in financial markets. Though the impact on regional markets was limited, there was tightening of liquidity available in the market. As a result, mobilization and retention of wholesale deposits became a challenging task.

The bank has taken proactive measures to ensure effective management & control of liquidity risk and any possible credit risk. Group strategy is to focus on re-pricing and reduction of our loan book, review and enhancement of our portfolio quality, and strengthening of deposit mobilization efforts.

Financial Institutions Group

The year saw Correspondent Banking business grow at a rapid pace utilizing the opportunities available.

The objective remains to become the preferred correspondent bank in the region. A focused approach to business and market has been instrumental in meeting our goals with quality service being the key to success. In this respect we have been able to position ourselves as a service provider with cross border execution capabilities. Branches at money centers such as New York, Hong Kong, London and Mumbai continued to offer cross border trade and payment facilities to customers, while representative offices at Karachi and Dhaka maintained close watch over relationships in those countries. Our Khartoum representative office which was started last year has done well. In short, we have been able to exploit our technological and operational expertise to cover geographical areas even where we do not have a physical presence and plans are in place to extend our network by opening additional offices in the Far East.

We are also in the process of implementing a new sophisticated payment system in New York interfaced with CHIPS & FED clearing. The system is under UAT and will be available in early 2009. When implemented it will drastically reduce manual processing and enable us to handle increased volumes and offer a wider range of products to meet customer needs.

Our London branch, a member of EBA, and capable of handling Euro & Sterling Payments, joined TARGET II with the first batch of banks in Europe.

With enhanced payment capabilities in India through membership of RTGS and NEFT we began handling India remittances from Dubai reducing the turnaround time to one working day.

On the Trade side we have introduced the Cash4LC product in the local market offering exporters value for their export documents on presentation thus reducing the length of their cash conversion cycle, reducing their costs and helping them to process more export orders.

Consistent efforts are made to meet regulatory compliance on a global basis. Due diligence was conducted on all banks with whom Mashreq has relationships and continuing efforts were made to further improve KYC systems/applications. Human resource requirements were proactively reviewed to cope with the regulatory changes while regular AML/KYC awareness programme(s) were conducted for staff as well as customers.

Our global operations New York, London & Hong Kong have been centralized in Dubai to provide standard product offering, standard delivery time, single point of contact / resolution, customized product offerings and error-free operations together with improved control of branch operations and enhanced disaster recovery arrangements.

Badr Al-Islami

Badr Al-Islami was launched in 2007 with the two-pronged corporate objective of opening new markets and providing the Islamic choice to existing Mashreq customers. In Retail business Badr has more than tripled its customer base during 2008, with more than 70% being new customers to the Mashreq group. Corporate business has seen 15% of its revenues coming from existing Mashreq clients opting for Islamic solutions.

In the second year of its operations, our Islamic banking initiatives established the Badr brand firmly and won its first ever Sukuk Advisory (AED 1.1 bn) successfully. Badr continued being a dominant player in Trust accounts, capturing 30% market share in the emirate of Dubai. Badr has been among the first financial institutions to sign up with the land departments of Ras Al Khaimah and Umm Al Quwain for Trust Account management of projects in those emirates. We were successful in leveraging on Mashreq's wide distribution network through introduction of BBCs (Badr Business Centers) in 13 key Mashreq branches. This 'first-of-its-kind' distribution strategy helped in boosting Badr's Retail business and providing wider distribution and brand coverage at tremendous cost benefit. During the year, Badr Online was launched for Retail & Corporate. It provides internet banking with a host of enquiry & payment facilities for Retail customers. Badr Online-Corporate was separately launched for Corporate customers. All foundations were laid during 2008, for launch in early 2009 of more Retail products like Shariah complaint Personal finance & Credit cards. Thereby, completing the entire suite of Retail products comprising of Home Finance, Share Finance, Vehicle Finance, Current account, Savings account and Fixed deposits.

Badr continued to maintain an attractive cost-income ratio by leveraging on the existing strengths of Mashreq's operational infrastructure. Badr's Shariah Supervisory Board comprising of renowned Islamic scholars continued to provide guidance and monitoring to ensure Shariah compliance for all products and processes.

Badr's focus in 2009 & beyond would be on developing Retail as the dominant business. Importance will be on building the brand name through aggressive advertising and improving customer service through service quality initiatives and technological advancements. Financial forecasts remain aggressive and are aimed at building the Retail business and sustaining the tremendous growth seen in the corporate business.

Treasury and Capital Markets

The shock waves of the global credit crunch and the US subprime crisis were already being felt across the global markets but the fall of Lehman brothers started a landslide causing severe collateral damage to world capital markets and financial institutions. The market conditions were so onerous that the global accounting body, IASB came out with an amendment to IAS 39 to enable companies to reclassify securities from trading to different categories. The GCC markets which were relatively unscathed in 2007 came under


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tremendous pressure during 2008. The CDS spreads for top Middle Eastern names widened significantly and bond prices collapsed. UAE stock markets lost billions of dirhams in market cap.

Recognizing the exceptional stress on valuations in thinly trading markets we reclassified securities from trading to 'available for sale' or 'held to maturity' category to avoid market volatility. Nevertheless, capital markets turmoil impacted our investment income in 2008 significantly.

Customer flow business ranging from plain vanilla products like spot and forward FX to complex derivatives posted strong growth in 2008. The cross sell initiatives launched in 2008 helped to increase the penetration of Capital Market products among our corporate clients.

Despite a very difficult year in the global fixed income markets, Mashreq Capital successfully established a secondary bond trading desk which generated major volumes and profits in its first year. A Shariah compliant fixed income fund in the DIFC is scheduled to be launched in 2009 in coordination with Badr-Al-Islami.

Mashreq Securities, the equities brokerage arm of Mashreq grew number of trades executed by 22% while overall trading volumes increased by 60% leading to revenue growth of 18% compared to last year. It increased its online trading market share by 44% whereas its market share of Dubai Financial Market and Abu Dhabi Securities Exchange increased by 11% compared to 2007.

Makaseb, the asset management arm of Mashreq in line with its commitment to provide investors with added convenience and flexibility started offering daily dealing on its flagship fund, the Makaseb Emirates Equity Fund and Makaseb Arab Tigers fund. Makaseb also launched the Ireland domiciled fund mirroring its existing Arab Tigers fund. The new Fund will allow European investors access to the dynamic MENA equity markets through an experienced, on the ground regional institution.

Risk Management

Mashreq operates within a Risk Management Framework defined by our risk appetite and our ability to manage risk for reward through sound risk management principles and processes followed in all business and product areas.

At its core, Risk Management in Mashreq operates independent of, but in partnership with the Business. Within this construct, limits and approval authorities are exercised by risk officers with defined approval authorities which in turn are determined by experience, demonstrated judgment, balance and skills. With Risk cuts across all activities in the bank, we established a Risk Committee consisting of all the Business Heads and Senior Members of the Risk Organization. The Committee is chaired by the CEO with the Risk Management Head as co-chair. Meetings take place at least quarterly, although ad hoc meetings may be called to discuss specific issues. The mandate of the RC is to develop a firm-wide position on key issues, including policies, portfolio priorities and portfolio direction.

During 2008, the bank continued to further refine its risk management processes. The Wholesale Credit Policies of the Bank were updated and revised and have been in effect since November. New policies (covering basic credit and documentation standards and product program requirements) have been introduced, and a Risk Management intranet-site portal established. The rating/scoring models were revalidated, new scoring models were developed (for project finance, commercial real estate, personal and auto loans) and some existing rating models were updated. The bank considers its risk management process to be among the most demanding in its GCC peer group.

Mashreq's portfolio quality, despite the pace of asset growth continues to remain stable and strong. The bank has a conservative policy for early recognition of impairment and for building a sufficient cushion of reserves for non–performing assets.

At Mashreq we assess credit risk through a combination of probability of default, individual analysis, credit structure, and collateral. As part of this, we have developed a sophisticated risk rating/scoring tool to uniformly measure credit risk in its Corporate and Retail portfolios. Statistical techniques are used for estimating default probabilities, for calculating expected loss and for measuring customer and product profitability. While overall risk management is unified and independent for the corporate and retail businesses, the processes for managing Corporate and Retail Risk are distinct and separate.

Corporate credit risk is managed through a series of fundamental principles, including a minimum of two signatures for any credit approval (a recommending signature from business and an approving signature from Independent Risk), risk rating standards applicable to every borrower, and adherence to a set of policies covering underwriting, and documentation standards.

Since the extension of credit across national borders to customers in foreign locations entails Country Risk, Mashreq has established cross border limits for managing transferability and convertibility risks for all countries that it does business with. These limits are periodically reviewed by Risk Management and approved by the Risk Committee.

Retail credit risk is managed on a product basis with individual extensions of credit subject to approved product parameters. The evaluation of a borrower's creditworthiness is determined on the basis of statistically validated scoring models, and all lending is carried out within a Retail Credit Policy framework. Mashreq has a well staffed Retail Risk organization that comprises of Policy, Credit Initiation & Compliance, Collection & Recovery, and Fraud Management.

We are also in the process of adopting and introducing a set of Market Risk policies along with revised standards for capital market activities. When completed, these policies will complement already existing policies covering our direct and proprietary risk taking activities in the capital markets area.

Mashreq recognizes the value and criticality of operational risk and has taken the initiative to set up an independent Operational Risk function under the umbrella of the Risk Management Group to build an operational risk culture across the organization, such that every resource within the Bank recognizes and takes ownership of operational risks inherent in their activities and manages the same in an effective manner. This is under implementation and will be completed in the course of 2009.

At Mashreq, we have integrated our various business operations and back office functions, including Technology, under a Head of Operations, in order to improve operating efficiency and processes; thus reducing operational risk.

Audit, Review & Compliance

The Group provides assurance to the Board of Directors, CEO and Senior Management on the adequacy of controls in the Bank and compliance with regulatory requirements, and seeks to improve effectiveness as well as efficiencies through its interaction with all segments of the Bank.

Reporting to the Audit Committee of the Board of Directors, the Audit function of the Group is totally independent of both business and support functions; it has the overall responsibility of carrying out independent audits and review of mashreq's entire Credit process, all the Operating, Functional and Support areas to assess the adequacy and effectiveness of the control framework and the risk mitigation processes and initiatives. It continues to evolve through challenging its methods and by adopting best practices to deal with the changing business activities and complexities, risk profile, dimensions, policies and processes of the Bank.

The Compliance arm of the Group provides ongoing critical support in ensuring that the Bank strictly observes all the regulatory and anti money laundering requirements it is subject to. Mashreq utilizes a world class automated AML transaction monitoring system coupled with a client and payment screening solution that is second to none.

In addition the Fraud & Investigations Division provides a clear focus in this area and has acquired state of the art forensic skills. It has also initiated and supported the business in a number of fraud prevention measures.

The Group plays a prominent role in its consultative capacity and continually interacts with all the areas of the Bank to help in enhancing the control structure, while maximizing efficiencies and optimizing risk mitigation.

Operations & Technology

2008 has seen Mashreq's operations group and technology arm Mindscape Information Technology ("MIT") intensify its focus on advancing its technology, cultivating service awareness and increasing transparency in processing. Successful completion of centralization in 2007 has allowed for these improvements to take effect and has allowed for the operating model to be challenged and further improved by centralizing shared services, automating transactions and reducing operating costs.

Operations group and MIT re-located to Dubai Outsource Zone ("DOZ") in 2008 creating the perfect platform for both captive and third-party out sourcing operations, delivering mid and high-end services in our core business areas within operations as well as others.

The focus continued to be on high volume areas like payments, account opening and credit processing. Major progress was achieved in further centralizing functions to enable quicker credit decisions for credit card and loan processing and account activation, which has raised quality and reduced costs. Progress was made on this initiative through the continued partnership with the Retail groups.

In the payments area, the roll out of Image Based Cheques Clearing ("ICCS") implemented in July 08 along with further automation in inward and outward remittances in addition to salary processing has brought about further benefits to the bank. The true benefit is likely to be realized in the early part of 2009 as processes are stabilized.

An imaging and workflow solution ("EDMS") was launched this year with a number of processes migrated within operations impacting various retail and corporate products. This implementation has facilitated the imaging of applications forms at the front-end with operations acting upon the images to complete the process cycle. Primary benefits gained have been reduced TAT, better traceability of applications and better controls.

Radical technology change has occurred within Mashreq, benefiting clients and all aspects of the bank's operations.

Mashreq's infrastructure has been refreshed in many key areas. Branch network fully migrated to Multi-Protocol Label Switching (MPLS) technology, thus enabling much-improved levels of availability and extended service. Similarly, the branch network is backed-up fully by Integrated Services Digital Network (ISDN) links that provide highly cost-effective resiliency in the unlikely event of disruption within the MPLS network.

The primary data centre for the bank has been redeployed to Dubai Internet City ("DIC") with the Disaster Recovery site located elsewhere. Plans to migrate these sites are well underway, enabling distribution of production and disaster recovery systems across two locations which are inter-connected by extremely high speed links with full back-up of all key systems and data, providing Mashreq with the most technologically advanced and secure data centre environment in the Gulf.

ATM technology and coverage has been enhanced with the further procurement of ATMs across Dubai and the introduction of 3G technology for improved reliability and


هل يمكنني مساعدتك؟
May I help you?

connectivity at third party locations. The credit card business saw the launch of a new debit and credit card switch technology allowing for increased functionality and availability for our merchants and their customers with all Point of Sale ("POS") services handled by this new technology. Further benefits will be evident in 2009 as ATMs also upgrade to this technology.

In addition to the above the bank has also introduced smarter solutions related to mobile banking, factoring, customer complaint management and call centre workforce management. Within the bank's internal operations new systems have been introduced in diverse areas such as, video conferencing and operational risk management.

Human Resources

We have always considered human capital as most critical resource for the success of the Bank and our HR strategy is therefore integral to the success of our Strategic Plan. Key initiatives which received attention during 2008 included attraction of appropriate talent, effective performance management, market-oriented rewards policies, investment in employee learning and development, and improvement in employee engagement.

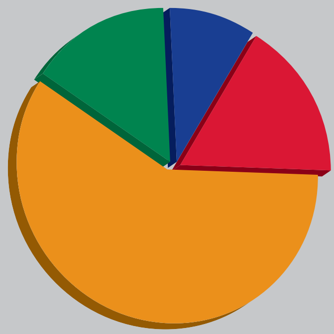
The strong growth of UAE banking sector during the last 3 years increased demand for quality hires across the industry, leading to fierce competition for a limited pool of talent. Our own employee base also registered a sizeable growth during this period but I am happy to state that we were able to attract from among the best available resources in the market.

In conjunction with the business a set of 14 organizational competencies have been identified that will now be the basis of recruitment, training and performance management. This will ensure a strong and robust value based culture across the organization.

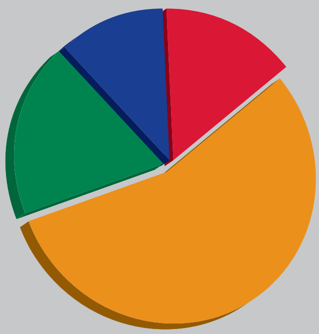
As a leading UAE National Bank we take our commitment to Emiratization very seriously. During the year, we again met our target by hiring over 400 Nationals to take our UAE National percentage of the bank to 37%. The bulk of these were new hires where a job specific 3-month training program was structured and included a mix of classroom and on-the-job-training. Our dedicated National Development Unit ensured

CLASSIFICATION OF ASSETS/LIABILITIES - DECEMBER 31

ASSETS	2004	2005	2006	2007	**2008**
OTHER ASSETS	5.6%	4.1%	5.4%	6.7%	**9.3%**
CASH AND BANK BALANCES	27.6%	28.7%	24.0%	35.6%	**16.5%**
ADVANCES	49.6%	42.9%	47.1%	40.3%	**59.0%**
INVESTMENTS	17.2%	24.3%	23.4%	17.4%	**15.2%**



LIABILITIES	2004	2005	2006	2007	**2008**
LONG TERM AND OTHER LIABILITIES	10.2%	10.5%	12.6%	13.3%	**14.6%**
CUSTOMER DEPOSITS	64.4%	64.5%	61.1%	55.1%	**55.2%**
BANK DEPOSITS	9.4%	7.5%	12.3%	19.7%	**18.7%**
EQUITY	16.0%	17.5%	14.0%	12.0%	**11.5%**



that identified employees with potential were provided individual development plans that focused on fast tracking their careers within the organization.

Development of our staff was top priority and close to a 1000 different programs were conducted, some internal and some in partnership with leading names such as Securities and Investments Training Institute, Association of Compliance Management, Centre of Business Excellence, Cohen Brown, Development Dimensions International, International faculty of Finance, Steven Covey & Edward De Bono Associates. A four tier leadership development program framework has been instituted in association with leading international development institutes. All newly appointed managers were required to undergo certification on supervisory skills which would help them get the best out of their teams.

To understand the voice of the employees and measure and monitor their engagement level better we changed our engagement measurement model and partnered with the Gallup Organization, a leading consulting firm that specializes in employee engagement and used their world renowned Q12 approach. The recommendation based on the initial findings are currently being planned for implementation in 2009.

2009 Outlook

2008 was the first year of our three year strategic plan covering the period 2008-2010 which was developed and adopted in 2007. This plan was developed relying on a forecast of expected growth of the UAE economy at the rate of 20 percent per annum for the next three years. The forecast for the global economy was modest but the overall investment climate was expected to be good. However, as events unfolded during 2008, it belied all forecasts and turned out to be the worst year for the financial services industry in the world. The extent and severity of shock which hit the global financial system could not have been anticipated, and Governments and regulatory authorities in most countries were caught off guard and forced to respond with emergency measures to contain the fall out.

Contrary to global forecasts, the UAE economy may not be heading for a recession but certainly for a major slowdown. Lower oil prices, depressed stock markets, and reduced construction activity will all contribute to the decline of economic activity. The grim market conditions indicate that 2009 will be a challenging year for the UAE banking sector. The liquidity crunch is expected to continue for the most part of the year. A slow down in the domestic economy will also reduce demand for banking services.

This changed economic scenario has prompted us to take a critical look at our plan and adjust it to the new market reality. Our focus during the year will be to manage liabilities (deposits) aggressively and assets (loans) conservatively. Liquidity and capital management will be our top priority. Soundness, not revenues growth will be the key theme for Mashreq in 2009 as we invest to further fortify our foundation. This will therefore position us for sustained long-term growth, as the slowdown recedes and new opportunities open up once more.

Thank you,

Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Worldwide Presence

UAE BRANCHES

ABU DHABI	Tel	Fax
Abu Dhabi Main	02-6274300	02-6269550
Zayed II	02-6335600	02-6341939
Al Salam	02-6786500	02-6742482
Baniyas	02-5048200	02-5822115
Muroor	02-4198200	02-4481821
Al Mushrif	02-4079200	02-4431717
Khalidiya	02-6937800	02-6673883
Musaffah	02-5555051	02-5555052
Al Jawazat	02-6420018	02-6412799
Al Mina	02-6734849	02-6734840
Al Najdah	02-6712279	02-6711004
Muroor II	02-6416628	02-6417904
AL AIN		
Al Ain Main	03-7661176	03-7645602
Al Ain AIT	03-7661178	03-7668896
Al Muwaiji	03-7997400	03-7540570
DUBAI		
Hor Al Anz	04-2623100	04-2662887
Dubai Mall	04-4344113	04-4344103
Dubai International City	04-4221313	04-4220372
Al Murraqabat	04-2658400	04-2657449
Al Khaleej	04-2732699	04-7067722
Suq Al Kabeer	04-2264176	04-2252912
Riqa	04-2223333	04-2233785
Khor Dubai	04-5069229	04-5069293
Jumeirah	04-3456444	04-4077696
Jebel Ali	04-8815355	04-8816628
Sheikh Zayed Road	04-3212572	04-3212574
Al Ghusais	04-2175100	04-2676347
Mall Of The Emirates	04-5116805	04-3410073
Al Rashidiya	04-2857008	04-2860373
Murooj	04-3434452	04-3434793
Dubai Internet City	04-3632030	04-3611091
Dubai Health Care City	04-3624760	04-3624759
Dubai Marina	04-3609944	04-3608843
Port Saeed	04-2957556	04-2956043

	Tel	Fax
AL Aweer	04-3333727	04-3333670
Zabeel	04-3340313	04-3342710
Abu Hail	04-2173301	04-2699530
Karama	04-3360547	04-3367359
Park Place	04-3296868	04-3296578
JBR	04-4242300	04-4233794
South Ridge	04-4286110	04-4221412
Burjuman	04-5097319	04-3967105
SHARJAH		
King Abdul Aziz	06-5077600	06-5745334
Sharjah Main	06-5684366	06-5689590
Buhaira	06-5743761	06-5744446
Al Khan	06-5770131	06-5772977
SHJ Industrial Area	06- 5340355	06- 5340188
Gold Souq (Al Wahda)	06-5012100	06-5668599
AJMAN		
Ajman Main	06-7421133	06-7426690
Ajman Grand Station	06-7430300	06-7431133
DHAID		
Dhaid	06-8822899	06-8822416
DIBBA		
Dibba	09-2444230	09-2443831
FUJAIRAH		
Fujairah	09-2027224	09-2226860
KALBA		
Kalba	09-2037315	09-2778950
KHORFAKKAN		
Khorfakkan	09-2387226	09-2387189
RAS AL KHAIMAH		
Al Nakheel	07-2281695	07-2281880
Ras Al Khaimah	07-2037216	07-2363620
UMM AL QUWAIN		
Umm Al Quwain	06-7662880	06-7664948

CUSTOMER SERVICES UNIT

	Tel	Fax
ABU DHABI		
Madinat Zayed	02-6312578	02-6310776
DUBAI		
Lamcy Plaza	04-3348050	04-3356313
EPPCo	04-3985854	04-3980727
SHARJAH		
Sahara Mall	06-5319550	06-5319551

SUBSIDIARIES

UAE - DUBAI		
Oman Insurance Co. P.s.c. (8 Branches in UAE) Tlx: 46030 OIC EM	04-2624000	04-2690110
Osool - A Finance Co. (10 Branches in UAE)	04-2737000	04-7066966
Mindscape Information Technology LLC	04-2714333	04-2722985

	Tel	Fax
Mashreq Securities LLC	04-2223333	04-2226061
Injaz Services FZ LLC	04-2223333	04-2226061
Al Badr Islamic Finance (PJSC)	04-2955206	04-2949931
Mashreq Capital (DIFC) Ltd.	04-2223333	04-2283491
Al Yamama Services FZ LLC	04-2223333	04-2283491
BAHRAIN		
Makaseb Funds Co. BSC	973 17 535455	973 17 535405
Makaseb Funds Co. BSC II		
Makaseb Funds Co. BSC III		

BRITISH VIRGIN ISLANDS

Roya Executive Ltd.
Wickhams Cay, PO Box 662,
Road Town, Tortola

Orriston Limited
Drake Chambers,PO Box 3321,
Road Town, Tortola

Bracebridge Limited
Drake Chambers, PO Box 3321
Road Town, Tortola

OVERSEAS BRANCHES

AFRICA
Egypt
Cairo
Tel: (202) 5710419
Fax: (202) 5710423
Swift: MSHQ EG CA

Down Town
Tel: (202) 2791 8556
Fax: (202) 2792 7298

Maadi
Tel: (202) - 25160900
Fax: (202) - 25160677

Nasr City
Tel: (202) - 24032347
Fax: (202) - 24032346

MIDDLE EAST
Bahrain
Manama
Tel: (973) 210114/211241
Fax: (973) 213516

Qatar
Al Rayyan
Tel: (974) 4803092, 4803007
Fax: (974) 4803588

C Ring Road
Tel: (974) 4249666/37/29 /30/31/32
Fax: (974) 4349647

Doha Branch - HO
Tel: (974) 4413213
Fax: (974) 4413880

Ramada
Tel: (974) 4328746, 4424765
Fax: (974) 4329288

TV Roundabout
Tel: (974) 4888622
Fax: (974) 4867207

ASIA
Hong Kong
Tel: (852) 2521 938
(852) 2905 5814
Fax: (852) 2521 4289

INDIA
Mumbai
Tel: (91) 22 66327200
Fax: (91) 22 66301554
Swift: MSHQ IN BB

New Delhi
Tel: (91) 11 23350560
Fax: (91) 11 23357143
Swift: MSHQ IN BB

EUROPE
London
Tel: (44) 207 3824000
Fax: (44) 207 2569717
Swift: MSHQ GB 2L
Telex: 883429 MSHQLN G

AMERICA
New York
Tel: (1) 212 5458200
Fax: (1) 212 5450918
Swift: MSHQ US 33
Telex: 239881 MSHQ NY

REPRESENTATIVE OFFICES

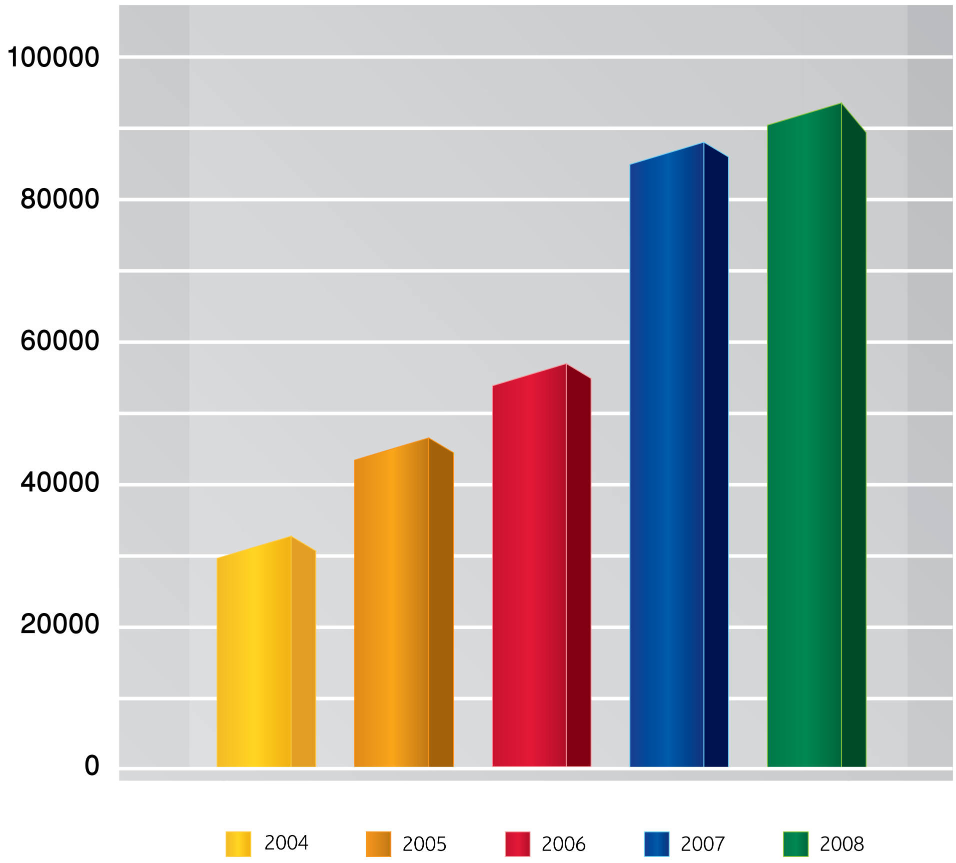
Bangladesh
Dhaka
Tel:(88) 02 9550761
(88) 02 7125169/68
(88) 02 9560473/812
Fax:(88) 02 7124195

Pakistan
Karachi
Tel:(92) 21 565 6830/31/32/51
Fax:(92) 21 5656872
(MSHQ PK KA)

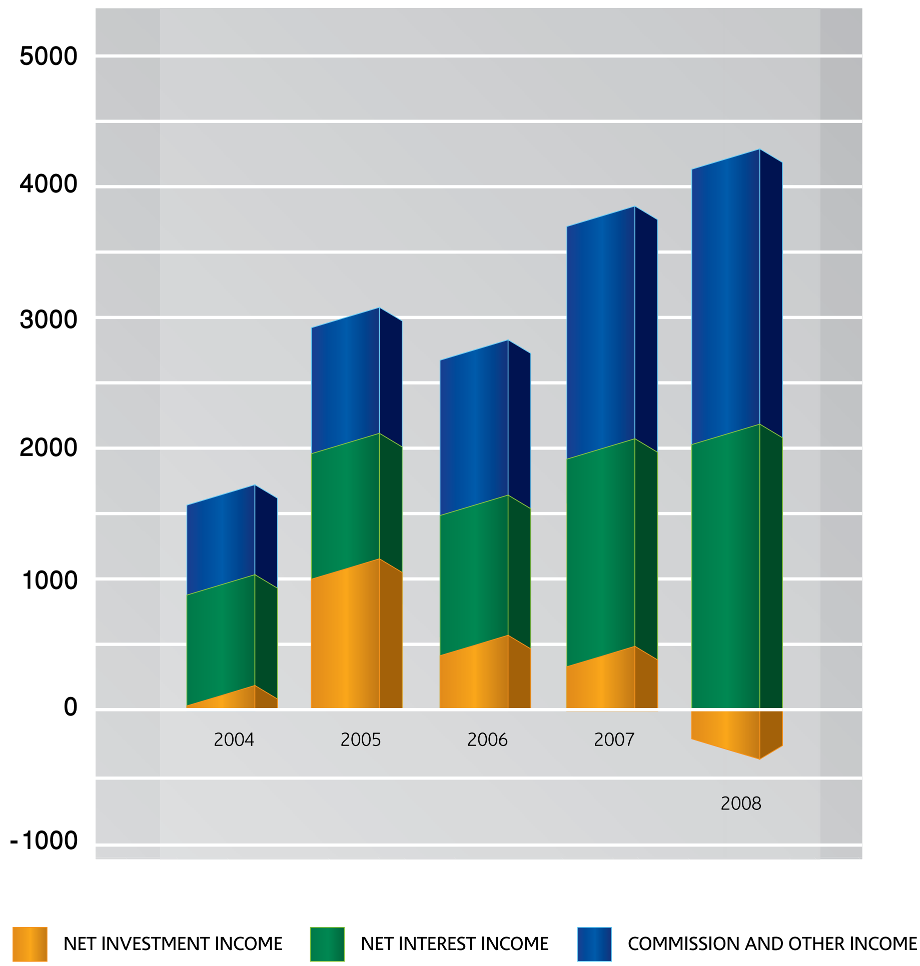
Sudan
Khartoum
Tel:(249) 183 74 0860/61/62

Financial Highlights

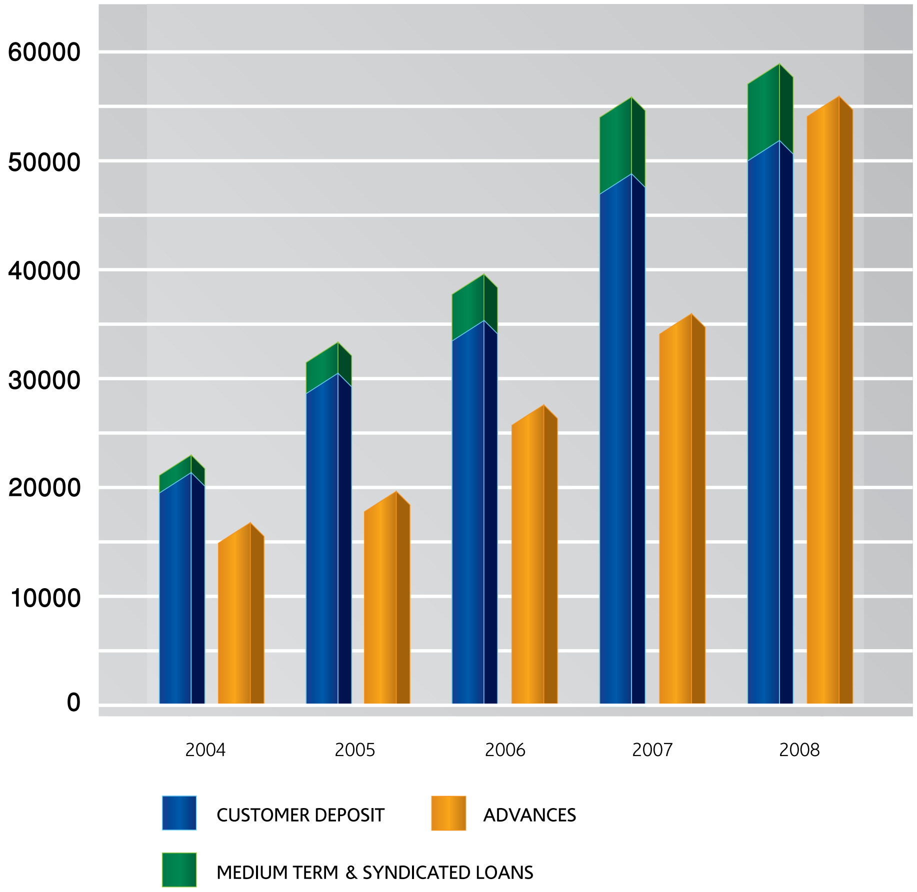
TOTAL ASSETS



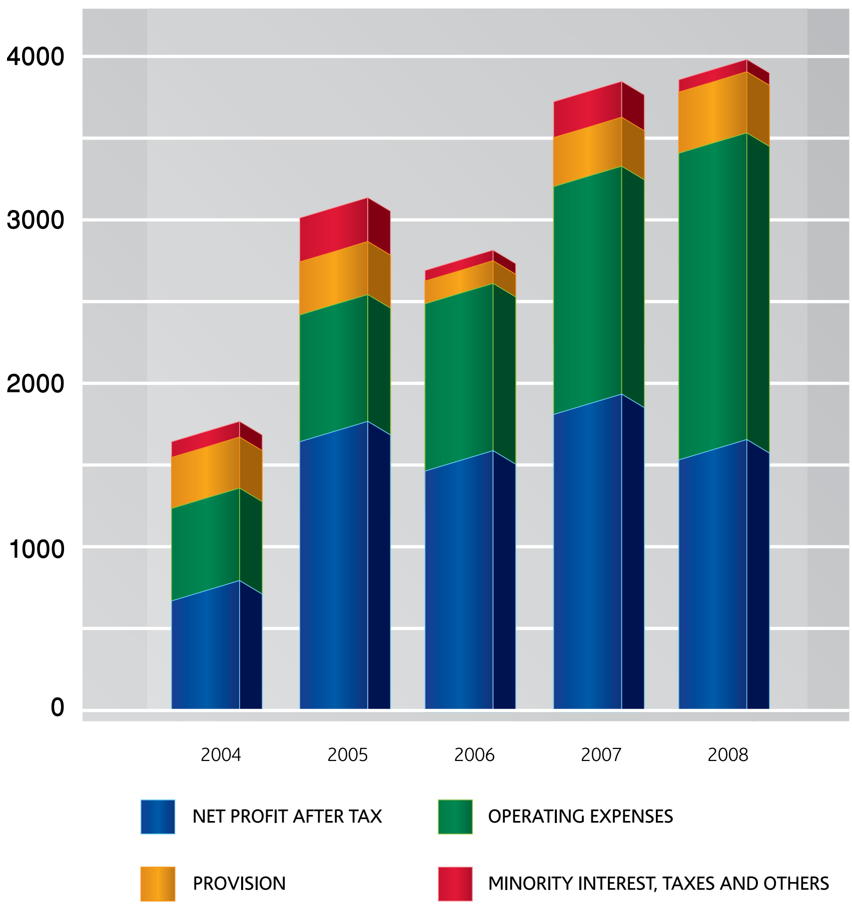
TOTAL INCOME COMPOSITION



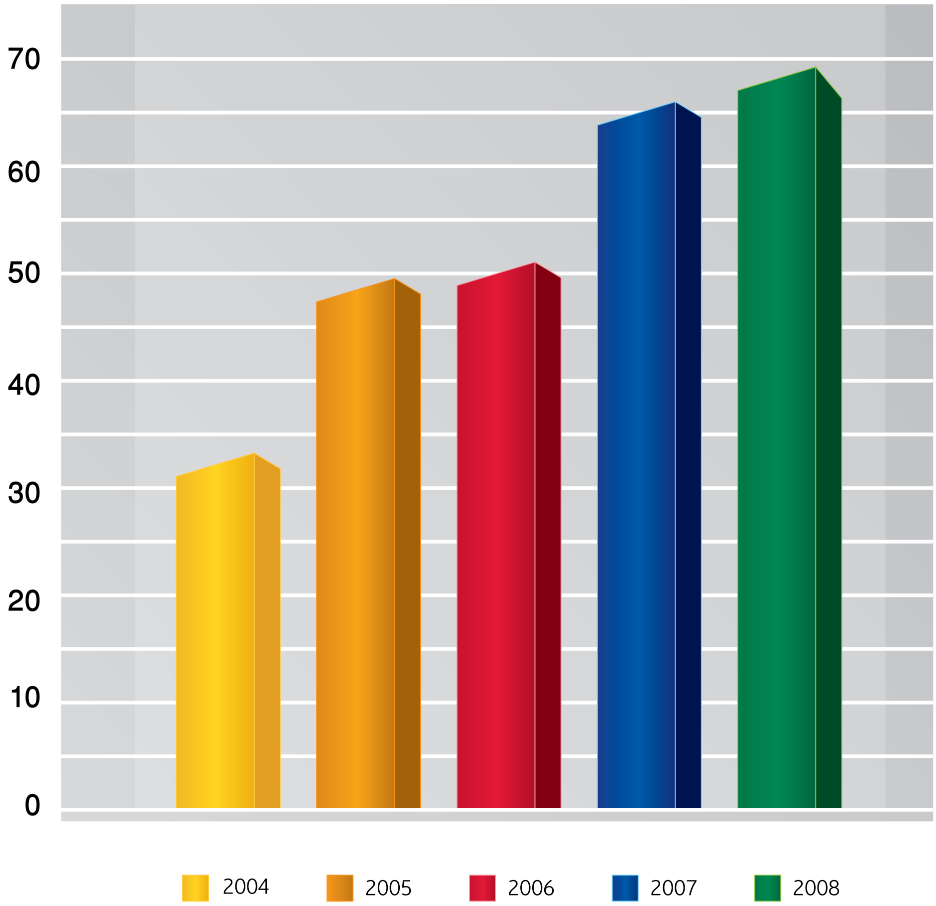
TOTAL DEPOSITS AND ADVANCES



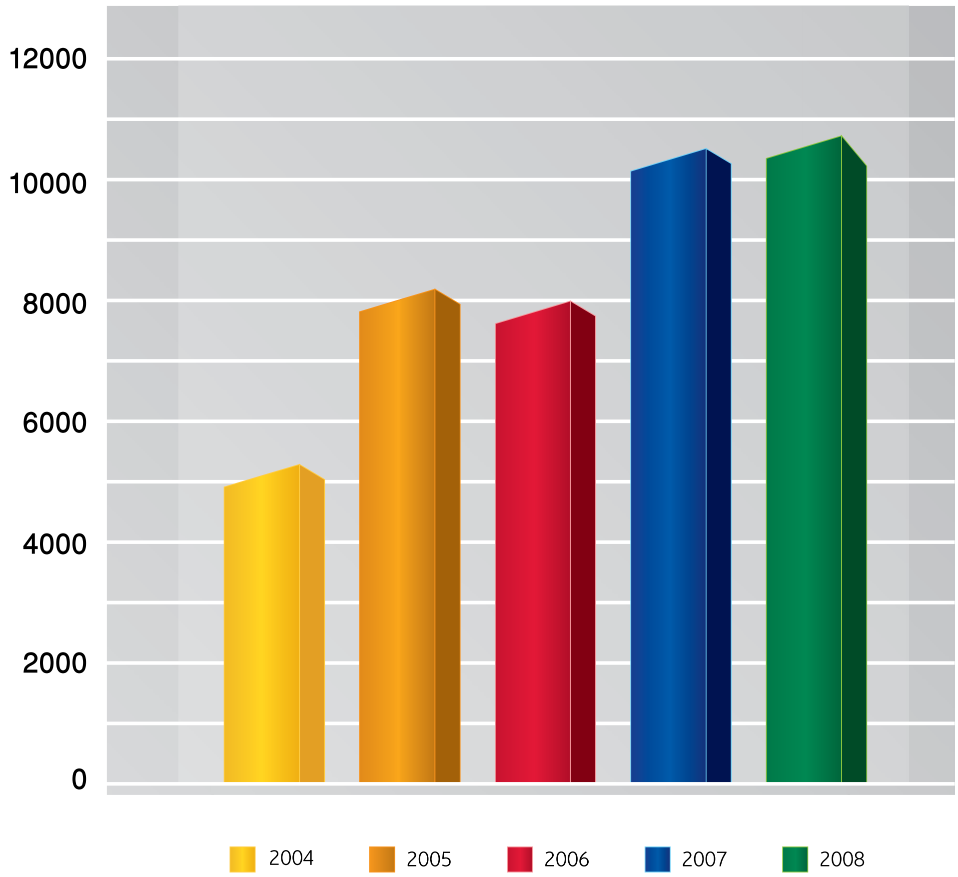
GROWTH PATTERN OF GROSS INCOME, OPERATING COSTS & NET PROFITS, AFTER TAX



BOOK VALUE PER SHARE



EQUITY



Independent Auditor's Report

Ref.: 7848CFS08-GLOSSARY REPORT-FINAL

Independent Auditor's Report

The Shareholders
Mashreqbank psc
Dubai
United Arab Emirates

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Deloitte & Touche (M.E.)

Anis Sadek
Partner
Registration No. 521

Dubai
February 8, 2009

Group Financial Statements

Consolidated Balance Sheet
As of December 31, 2008

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

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

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

……………………………..
Abdulla Ahmad Al Ghurair
Chairman

……………………………..
Abdul Aziz Abdulla Al Ghurair
Chief Executive Officer

Consolidated Income Statement
For the year ended December 31, 2008

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

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

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

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

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

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

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

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

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

1. General information

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

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

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

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

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

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

2. Adoption of new and revised International Financial Reporting Standards

Standards and interpretations effective in the current year

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

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

Standards and interpretations in issue not yet adopted

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

IAS 1 (Revised) Presentation of Financial Statements (effective for accounting periods beginning on or after January 1, 2009);

IAS 16 (Revised) Property, Plant and Equipment (effective for accounting periods beginning on or after January 1, 2009);

IAS 19 (Revised) Employee Benefits (effective for accounting periods beginning on or after January 1, 2009);

IAS 20 (Revised) Government Grants and Disclosure of Government Assistance (effective for accounting periods beginning on or after January 1, 2009);

IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after January 1, 2009);

IAS 27 (Revised) Consolidated and Separate Financial Statements (effective for accounting periods beginning on or after July 1, 2009);

IAS 28 (Revised) Investments in Associates (effective for accounting periods beginning on or after July 1, 2009);

IAS 29 (Revised) Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after January 1, 2009);

IAS 31 (Revised) Interests in Joint Ventures (effective for accounting periods beginning on or after July 1, 2009);

IAS 32 (Revised) Financial Instruments: Presentation (effective for accounting periods beginning on or after January 1, 2009);

IAS 36 (Revised) Impairment of Assets (effective for accounting periods beginning on or after January 1, 2009);

IAS 38 (Revised) Intangible Assets (effective for accounting periods beginning on or after January 1, 2009);

IAS 39 (Revised) Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after January 1, 2009);

IAS 40 (Revised) Investment Property (effective for accounting periods beginning on or after July 1, 2009);

IAS 41 (Revised) Agriculture (effective for accounting periods beginning on or after July 1, 2009);

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

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

Standards and interpretations in issue not yet adopted (continued)

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

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

3. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of preparation

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

(c) Basis of consolidation

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

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

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

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

3. Significant accounting policies (continued)

(c) Basis of consolidation (continued)

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

(d) Derivative financial instruments and hedge accounting

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

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

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

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

3. Significant accounting policies (continued)

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

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

Embedded derivatives

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

(e) Revenue recognition

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

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

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

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

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

(f) Foreign currency transactions

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

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

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

3. Significant accounting policies (continued)

(f) Foreign currency transactions (continued)

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

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see above for hedging accounting policies); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in consolidated income statement on disposal of the net investment.

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

(g) Impairment of tangible assets

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

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

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

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

(h) Investment properties

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

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

3. Significant accounting policies (continued)

(i) Property and equipment

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

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

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

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

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

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

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

(j) Financial assets

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

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

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

3. Significant accounting policies (continued)

(j) Financial assets (continued)

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

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

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

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Held-to-maturity investments

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

AFS financial assets

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

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

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

Loans and advances

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

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

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

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

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

3. **Significant accounting policies** (continued)

(j) **Financial assets** (continued)

Impairment of financial assets

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

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

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

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

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

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

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

Impairment of loans and advances

Impairment of loans and advances are assessed as follows:

(i) **Individually assessed loans**

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

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

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

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

3. Significant accounting policies (continued)

(j) Financial assets (continued)

Impairment of loans and advances (continued)

(ii) Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances on:

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

(a) Performing commercial and other loans

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

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

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

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

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

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

Classification as debt or equity

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

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

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

3. **Significant accounting policies** (continued)

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

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

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

Other financial liabilities

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

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

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

(l) **Customers' deposits**

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

(m) **Repurchase transactions**

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

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

(n) **Insurance Claims**

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

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

(o) **Liability adequacy test**

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

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

3. Significant accounting policies (continued)

(p) Reinsurance

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

(q) Employees' end-of-service indemnity

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

(r) Pension and national insurance

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

(s) Taxes on income

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

(t) Offsetting of financial assets and liabilities

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

(u) De-recognition of financial instruments

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

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

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

(v) Islamic financing and investment products

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

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

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

Murabaha

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

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

3. Significant accounting policies (continued)

(v) Islamic financing and investment products (continued)

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

Istissna'a

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

Ijara

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

Musharaka

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

Mudaraba

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

Wakala

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

(ii) Revenue recognition

Revenue is recognized on the above Islamic products as follows:

Murabaha

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

Istissna'a

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

Ijara

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

Musharaka

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

Mudaraba

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

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

3. Significant accounting policies (continued)

Wakala

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

(w) Provisions

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

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

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

(x) Operating leases

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

(i) Impairment of loans

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

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

Individually assessed loans

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

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

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

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

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

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

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

Collectively assessed loans

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

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

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

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

(ii) Property and equipment

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

(iii) Fair value of financial instruments

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

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

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

(v) Derivative financial instruments

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

(a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(b) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

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

5. Cash and balances with central banks

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

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

6. Deposits and balances due from banks

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

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

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

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

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

7. Investments

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

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

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

7. Investments (continued)

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

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

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

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

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

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

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

7. Investments (continued)

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

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

(e) "Held-for-trading" and "Available-for-sale" investments at December 31, 2008 included AED 84.75 million held in the name of "related parties" as nominees for the account and for the benefit of the Group (2007: AED 210.04 million).

(f) The fair value of investments classified under held-to-maturity amounted to AED 7,733.05 million as of December 31, 2008 (2007: AED 193.57 million).

(g) The above investments include debt securities aggregating to AED 6,107.427 million (2007: AED 4,531.404) [out of which held-for-trading at fair value of AED Nil (2007: AED 3,960.904 million), available-for-sale at fair value of AED 1,306.520 million (2007: AED 570.500 million) and held to maturity investments of AED 4,800.907 million (2007: AED Nil)] sold under repurchase agreements ("repos").

(h) Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", issued by the International Accounting Standards Board (IASB) on October 13, 2008, the Group reclassified certain investments from Held For Trading ("HFT") to Held To Maturity ("HTM") and to Available For Sale ("AFS"). The Bank and other subsidiaries identified those assets, eligible under the amendments, for which at July 1, 2008 (in the case of the subsidiary Oman Insurance Company psc at September 30, 2008), it had a clear change of intent to hold for the foreseeable future or until maturity rather than to exit or trade in the short term. Under IAS 39 as amended, the reclassifications were made with effect from July 1, 2008 for the Bank and other subsidiaries and from September 30, 2008 for the subsidiary Oman Insurance Company PSC.

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

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

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

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

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

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

8. Loans and advances (net)

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

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

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

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

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

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

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

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

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

9. Islamic financing and investment products

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

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

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

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

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

10. Interest receivable and other assets

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

11. Investment properties

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

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

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

12. Property and equipment

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

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

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

13. Deposits and balances due to banks

	December 31, 2008 AED '000	December 31, 2007 AED '000
Time	**10,527,107**	10,515,527
Demand	**1,326,096**	1,550,649
Overnight	**483,288**	1,330,848
	12,336,491	13,397,024
The above represent borrowings from:		
Banks abroad	**8,037,405**	9,095,490
Banks in the UAE	**4,299,086**	4,300,553
Overseas central banks	-	981
	12,336,491	13,397,024

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

14. Repurchase agreements with banks

Repo borrowing

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

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

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

15. Customers' deposits

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

Analysis of economic activities:

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

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

16. Islamic customers' deposits

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

17. Insurance and life assurance funds

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

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

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

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

18. Interest payable and other liabilities

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

19. Medium-term floating rate notes

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

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

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

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

20. Long-term loans

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

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

21. Capital and reserves

(a) Issued capital

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

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

(b) Statutory and legal reserves

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

(c) General reserve

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

22. Minority interest

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

23. Contra accounts and commitments

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

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

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

23. Contra accounts and commitments (continued)

(c) Contra accounts – maturity profile

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

2008

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

2007

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

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

(d) Operating lease commitments

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

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

24. Interest income

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

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

25. Income from Islamic financing and investment products

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

26. Interest expense

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

27. Distribution to depositors – Islamic products

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

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

28. Net fee and commission income

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

29. Net investment (loss)/income

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

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

30. Other income (net)

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

31. General and administrative expenses

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

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

32. Allowances for loans and advances and other financial assets

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

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

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

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

33. Earnings per share

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

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

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

34. Foreign restricted assets

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

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

35. Cash and cash equivalents

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

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

	December 31, 2007 AED '000	December 31, 2006 AED '000
Cash on hand, current accounts and deposits with Central Banks	20,200,123	2,405,688
Deposits and balances due from banks	10,974,141	8,556,912
	31,174,264	10,962,600
Less: Deposits with Central Banks for regulatory purposes	(1,597,378)	(1,179,871)
Less: Deposits maturing after 3 months	(6,367,894)	(2,575,866)
	23,208,992 (a)	7,206,863 (b)
Increase in cash and cash equivalents – 2007 [(a) – (b)]	16,002,129	

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

36. Related party transactions

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

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

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

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

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

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

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

Geographic regions

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

Industry Sector

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

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

38. Segmental information

2008

	Retail	Corporate	Financial Institutions	Islamic Banking	Treasury & Capital Markets	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	1,026,887	687,462	80,394	53,070	4,343	17,138	214,481	2,083,775
Other income	490,478	526,931	176,828	48,327	116,171	621,496	(80,068)	1,900,163
Total operating income	**1,517,365**	**1,214,393**	**257,222**	**101,397**	**120,514**	**638,634**	**134,413**	**3,983,938**
General and administrative expenses								(1,873,962)
Allowances for loans and advances and other financial assets								(362,362)
Income before taxes and minority interest								**1,747,614**
Taxation								(15,545)
Net income for the year								**1,732,069**
Attributed to:								
Equity holders of the parent								**1,642,830**
Minority interest								**89,239**
								1,732,069
Segment Assets	**12,109,791**	**36,245,019**	**6,660,729**	**6,892,383**	**17,037,300**	**3,764,204**	**10,534,095**	**93,243,521**
Segment Liabilities	**10,070,100**	**36,659,400**	**2,925,000**	**6,416,494**	**10,564,800**	**2,360,016**	**13,565,312**	**82,561,122**

2007

	Retail	Corporate	Financial Institutions	Islamic Banking	Treasury & Capital Markets	Insurance	Head Office and Others	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	796,277	620,484	83,824	37,190	(562,285)	17,971	206,997	1,200,458
Other income	421,674	508,622	129,534	3,349	762,404	738,764	85,681	2,650,028
Total operating income	1,217,951	1,129,106	213,358	40,539	200,119	756,735	292,678	3,850,486
General and administrative expenses								(1,409,787)
Allowances for loans and advances and other financial assets								(308,385)
Income before taxes and minority interest								2,132,314
Taxation								(6,319)
Net income for the year								2,125,995
Attributed to:								
Equity holders of the parent								1,900,632
Minority interest								225,363
								2,125,995
Segment Assets	8,962,632	26,049,346	8,254,899	2,700,200	31,363,300	3,767,182	6,529,838	87,627,397
Segment Liabilities	9,872,700	38,634,121	4,131,800	2,159,127	7,920,400	1,644,512	12,780,339	77,142,999

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

39. Classification of financial assets and liabilities

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

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

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

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

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

40. Derivatives

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

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

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

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

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

Derivatives held for hedging purposes

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

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

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

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

40. Derivatives (continued)

Statement of Derivatives as at December 31, 2008

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

Statement of Derivatives as at December 31, 2007

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

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

41. Capital management

Regulatory capital

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

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

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, if any.

- Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve (45%) relating to unrealised gains on investments classified as available-for-sale.

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

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

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

41. Capital management (continued)

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

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

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

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

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

Capital allocation

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

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

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

42. Risk management

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

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

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

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

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

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

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

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

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

Credit Risk Management

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

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

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

Wholesale credit risk management

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

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

42. Risk management (continued)

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

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

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

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

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

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

Retail credit risk management

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

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

Credit review procedures

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

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

42. Risk management (continued)

Loan Classification

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

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

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

Impaired loans and securities

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

Past due but not impaired loans and securities

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

Allowances for impairment

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

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

Write-off policy

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

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

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

42. Risk management (continued)

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

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

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

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

42. Risk management (continued)

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

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

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

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

42. Risk management (continued)

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

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

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

2008	**UAE**	**Middle East countries**	**O.E.C.D**	**Other countries**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Impaired loans and advances	**91,357**	**56,190**	**-**	**21,253**	**168,800**
Impairment allowance for credit losses	**246,177**	**90,385**	**-**	**19,467**	**356,029**

2007	UAE	Middle East countries	O.E.C.D	Other countries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Impaired loans and advances	291,580	69,629	-	21,928	383,137
Impairment allowance for credit losses	348,209	68,758	-	19,565	436,532

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

42. Risk management (continued)

Market Risk Management

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

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

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

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

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

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

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

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

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

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

Interest Rate Risk Management

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

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

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

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

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

42. Risk management (continued)

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

Interest Rate Sensitivity Gap:

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

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

42. Risk management (continued)

Currency Risk Management

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

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

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

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

42. Risk management (continued)

Liquidity Risk Management

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

Management of liquidity risk

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

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

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

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

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

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

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

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

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

42. Risk management (continued)

Maturity Profile:

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

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

Maturity profile as at December 31, 2007:

Total assets	46,156,867	12,223,323	7,836,378	15,938,826	5,472,003	87,627,397
Total liabilities and equity	57,019,955	8,184,951	2,897,867	6,254,982	13,269,642	87,627,397

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

42. Risk management (continued)

Fair value of financial instruments

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

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

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

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

43. Fiduciary activities

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

44. Fund management

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

45. Comparative figures

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