His Highness
Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates

General Sheikh Mohammad Bin Zayed Al Nahyan

Abu Dhabi Crown Prince
Deputy Supreme Commander of the U.A.E. Armed Forces

His Highness Sheikh Hazza Bin Zayed Al Nahyan

Chairman
First Gulf Bank

CONTENTS

BOARD OF DIRECTORS

H.H. Sheikh Hazza Bin Zayed Al Nahyan	Chairman
H.H. Sheikh Tahnoon Bin Zayed Al Nahyan	Vice Chairman
Abdulhamid Mohammad Saeed	Board Member & Managing Director
Ahmed Ali Al Sayegh	Board Member
Khaldoon Khalifa Al Mubarak	Board Member
Dhafer Sahmi Al Ahbabi	Board Member
Khadem Abdulla Al Qubaisi	Board Member

On behalf of the Board of Directors, I am pleased to present to the shareholders the Audited Financial Statements of First Gulf Bank for the year ended December 31, 2008 and report the Bank's performance during the year.

To start, First Gulf Bank cherishes and remains committed to the memory of our founding father and leader, His Highness Sheikh Zayed Bin Sultan Al Nahyan.

Global Markets

The year 2008 saw the world struggling with the strongest and deepest financial crisis since the great depression of the 1930's. Such an erosion of consumer, business and government confidence has rarely been seen in the last decades. We see reversal of capital flows, deleveraging, commodity prices going south, unemployment and wealth destruction with rapid deterioration of all measurable financial parameters. We believe that the crisis was created by the greed of certain classes of financial players based on a never seen credit boom, unsustainable asset prices, high leverage and failure of apt regulation which has led to a world with no semblance of an economic order. We also see governments across the globe bailing out tottering businesses and becoming majority owners of financial institutions in a major reversal of capitalism across the world. The year 2009 will be a difficult year with a global slowdown and consolidation of all businesses. The IMF report indicates a negative growth for all developed nations and a slow growth for emerging markets of not more than 3%, assuming governments play an active role in managing liquidity, push for strong governance, transparency, increase consumer confidence and all of this is done in a coordinated manner across the globe.

The U.A.E. – stable growth

The U.A.E. economy experienced a slowdown especially in the second half of 2008 as oil prices retreated and liquidity in the market reduced dramatically. The U.A.E. economy's correlation to the global economy is clearly visible and can be felt in all quarters although we believe that the resilience and the presence of certain positives will ensure that we have a better recovery compared to other countries. The second half of the year was characterised by a plunging stock/realty market and the disappearance of liquidity, a lot of which came into the country banking on a revaluation of the dirham and the surpluses seen in other parts of the world. This disappearance, along with strong credit growth, ensured that banks were left with little cash to lend and sustain economic activity in the Emirate. The timely intervention of the Government and the U.A.E. Central Bank ensured that some balance and confidence was reposed in the markets on the liquidity side. Going forward, we believe that most of the global slowdown will be felt through oil price, but will also negatively affect key drivers of the non-oil sector including tourism, trade and the financial sector. We forecast that real GDP growth will slow to 3% in 2009e, from a buoyant 7.5% in the previous year. Direct government involvement in investment or government sponsorship of projects especially for the infrastructure and utilities will continue. Fiscal policy will remain expansionary, focusing on capital spending and directing resources into areas desirable for the economy. Our view is that the U.A.E. is in a good position to face the challenges, given the fiscal and current account surpluses realised over the last few years and a buildup in net foreign assets (NFA). A cohesive and integrated economic policy for the whole country rather than over-expansionary visions in certain parts of the country will ensure that the positives are converted into growth which is good and sustainable.

Financials 2008

First Gulf Bank has again had another successful year with outstanding financial results. We have now established a leadership position in the U.A.E. market and have once again repeated a sterling performance in a competitive market. The year 2008 was the year of "New Initiatives" and these new initiatives based on pragmatic thinking and innovation have led us to great results. In terms of 2009, I would describe it as the year of "Consolidation" as we review our strategies and put in place plans to be prepared for the anticipated economic slowdown and worldwide business reforms. Our strategy for 2009 includes maintaining a strong balance sheet and a good portfolio, focus on efficiency and sustainable business growth.

The financials reflect the continued expansion and growth of First Gulf Bank with a bottom-line of AED 3.01 billion which is a growth of 50% over the previous year in a year where stock markets didn't perform well, the real estate market tanked and where the banking sector had to pay higher costs on raising liquidity. We are well aware that markets will have a higher value for companies that carry higher levels of capital and provisioning and in line with this our equity at AED 16.6 billion with a CAR of 14.1% is large and is well placed to support the growth rates that are envisaged. All our businesses, including the new initiatives of 2008, performed well and we have once again delivered a profit with a ratio of 70:30 for our core banking business and the other initiatives that we have launched over the years. This ratio will continue as before. In line with commitments made for our geographical expansion we now have a full fledged operation in Libya named "First Gulf Libyan Bank" and are on our way to open up a wholesale branch in Singapore. We are hopeful of more First Gulf Bank flags in other geographies across the globe. In the midst of all this activity, we remain committed to our vision of maximising value for all our stakeholders.

The First Gulf Bank Business Group had a record year in 2008, demonstrating the strength and flexibility of its strategy. The year 2009 and maybe 2010 will not be easy as we will face many new challenges and issues which will require greater objectivity in our decision making. One of First Gulf Bank's core strengths has been its dynamism, focus, and ability to change and this continuing strength shall see us in good stead over the coming years. We have a strong management team in place and benefit from a committed and highly professional staff, a strong customer base and the goodwill of our shareholders. I am confident about First Gulf Bank's ability to deliver great results in an environment which may not be very conducive as we have the courage to rise to the challenge of a new financial order.

The Board of Directors, as in the past, and to cap off another year of stupendous success for First Gulf Bank is pleased to recommend the distribution of 35% cash dividend to shareholders.

I would like to take this opportunity to express my gratitude to the President His Highness Sheikh Khalifa Bin Zayed Al Nahyan for his guidance and support, His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister and Ruler of Dubai, His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and their Highnesses and all members of the Supreme Council for their support.

I would also like to extend my thanks to all our Shareholders, Customers, Correspondent Banks, the Central Banks of the countries we operate in and all staff at the Central Bank of the U.A.E. for their continued help and support to First Gulf Bank.

Finally, I would like to thank all the Board Members, the Management Team and the staff for their commitment, dedication and the will to do better year after year and to congratulate them for another year of all round success.

Hazza Bin Zayed Al Nahyan
Chairman

MANAGING DIRECTOR’S REPORT

Dear Stakeholders

2008 was an exceptionally challenging year – for the global economy, for the world’s financial markets, for the U.A.E. and the banking sector in the country and abroad. The complete lack of confidence in markets across the globe and in the U.A.E. meant that business conditions were quite unfavourable. Such downfall was experienced in the second half of the year, where it affected many organisations in terms of lower last quarter results. First Gulf Bank has delivered an outstanding performance, where we made AED 3,005 million in net profit. Our strategy was to grow our core business in the U.A.E. and certain select geographies and continue our investments in subsidiaries and ensure we maintain the momentum and balance to achieve our appetite for both balance sheet size and profits. We had a robust loan growth especially in the first half of the year and were one of the few to quickly re-price our book as markets turned negative and risk margins expanded. We slowed down the investment side of the balance sheet and exited areas which we felt were not going to stand up to the oncoming onslaught of extremely bad market conditions. These measures ensured that we were less impacted by the crisis, having positioned ourselves rightly, at an early stage and in areas most directly affected by the crisis. We have always focused on implementing an effective risk management model and a well-diversified business model. These models give us the flexibility to maneuver and change plans as required.

We continued to focus on maximising returns for our shareholders’ coupled with establishing a strong and sustainable business. Our Equity is AED 16.6 billion with a Capital Adequacy Ratio of 14.1%. Our Return on Average Assets is 3.3% and Return on Average Equity is 22%, which positions us among the select few institutions with high return ratios achieved in the Gulf. Our rating of A+ clearly shows that we have a solid base in the market. All our businesses turned in a solid performance and businesses in the area of Islamic Banking, Brokerage, Real Estate and Merchant Banking have grown and are now effective contributors to the Bank. Our real estate business - which constitutes just 5.4% of our balance sheet - turned in a very good performance on the back of adverse market conditions as we were early entrants to this business.

Our vision is to build a great financial services business with ancillary activities that complement our business in the geographies that we operate in. As we look forward, the near-term outlook continues to be very challenging. Conditions remain difficult both in financial markets and the wider economy in general. Credit, for both individuals and businesses, is likely to be more expensive and less widely available than before and real estate markets in the country will remain difficult. With this backdrop, we remain very confident of our business model and the continuing success of the First Gulf Bank franchise in the future. We are closely monitoring the performance of all our businesses, setting triggers and key measures to ensure we remain focused, efficient and flexible.

First Gulf Bank has a strong operating platform and a clear focused strategy, a strategy which has served us well over the last few years. Tight management of risks, capital and costs will continue to be a priority. We have built leading positions in our core businesses, and are thus well-placed to benefit from a flight to quality. We will continue to develop our “stable” businesses and build on our competitive edge in new businesses which we believe the environment will have. Our branch in Libya is operational and we are aiming to open a full fledged branch in Singapore, Algeria and representative offices in other geographies.

The longer-term positive trends that are shaping our environment remain in place, and these trends, including an active fiscal policy laced with selective government intervention, will favor banks. The pace of globalisation continues, and the Middle East and the U.A.E. has its role well defined. As a leading bank and a major player in the U.A.E., we are well-positioned to benefit from these trends.

My sincere thanks to all our stakeholders who have continued to believe in the First Gulf Bank brand. I would like to thank our board members for their continuous support, providing direction on the Bank's future strategy and the trust and confidence reposed in the management team. Our mission is to serve the interests of our shareholders, clients, employees, and the communities in which we operate. We believe in establishing a strong business focusing on performance, returns and continuity.

Over the years, the U.A.E. has emerged as a leading Arab country in economic development and growth and will continue to grow in line with the vision of our late father and great leader His Highness Sheikh Zayed Bin Sultan Al Nahyan. We will continue playing a role in the development and growth of this nation through our financial services business and participate in its advancement and economic development.

I am optimistic on First Gulf Bank's position and progress in 2009. Markets, businesses, economies, nations, will face challenges, but many will eventually survive this financial turmoil. We have a strong business foundation based on an active risk management, a clear vision and well defined strategic objectives. We will achieve our objectives this year through our focus, flexibility and dynamism.

Abdulhamid Saeed
Managing Director

Dear Stakeholders

After years of strong growth, the world economy was hit by an extraordinary financial shock in 2008 that resulted in an overall slowdown in the global economic activity. Though the GCC remains better positioned as compared to many other economies, the path to a sustainable recovery is likely to take time. The banking industry in the region has also been touched by these developments, posing a challenge for banks to sustain growth levels as witnessed in the recent past. Amidst such a backdrop, First Gulf Bank has managed to weather the situation admirably well and has continued to demonstrate impressive growth levels across all its operating dimensions and the fourth quarter of 2008 is an excellent witness. This has been made possible due to the futuristic and pragmatic vision of our board, execution of dynamic strategies by our management and implementation of robust corporate governance framework and strong risk management processes across all business areas. While the global economic outlook continues to be uncertain, we are continuously working on our dynamic strategies in order to achieve our goals.

2008 – A Review

I am pleased to announce that 2008 has been an excellent year for First Gulf Bank. Our broad regional presence, deep understanding of markets and our firm commitment towards our clients have helped us deliver outstanding results. First Gulf Bank was named "Best Commercial Bank in the U.A.E." by Asiamoney during the year. Asiamoney has been awarding the best banks across Asia for 10 years, and this was the first time they included the GCC region. First Gulf Bank was the inaugural "Best Commercial Bank in the U.A.E.".

During the year in review, First Gulf Bank has delivered positive results, with total operating revenue of AED 4,698 million, an increase of 66% over last year's figures. Revenues from the core banking activities have increased by 71% during the year to AED 3,786 million, driven mainly by a 94% increase in the Net Interest and Islamic Financing income that reached AED 2,580 million. Overall net profit of the Bank has increased to AED 3,005 million representing an impressive increase of 50% over last year's figures. The bank's assets grew by 47% to reach AED 107.5 billion by year end 2008. The increase in the Bank's Equity by 64% to AED 16.6 billion illustrates the point that we are well positioned to achieve sustained growth in the future.

Our overall emphasis on organic growth of core banking activities is actively complemented by our focus on achieving appropriate diversification through formation of subsidiaries and associate companies in appropriate business segments. We have also been constantly focusing on establishing foothold in other select markets with the intent of maintaining our impressive growth levels and delivering acceptable returns to shareholders.

The Business Groups

Corporate Banking Group

2008 was an outstanding year for the Corporate Banking Group at First Gulf Bank. Not only did we deliver record financial performance but also managed our risk profile at the same time. We have also increased market penetration and developed a stronger customer base. It's a simple truth; by creating opportunities for our customers, we create opportunities for ourselves. This philosophy has been critical in broadening the scope of our product offerings. 2008 was also the start of a series of new initiatives. The trend began with the successful launch of a Liability Unit to manage and market high-value corporate deposit relationships.
In later part of 2008, First Gulf Bank has taken another initiative to broaden the scope of its product offerings by initiating the development of end-to-end Transaction Banking & Cash Management solution in consonance with customer requirements within the region.

During the year 2008, the funded assets of the corporate bank grew from AED 36.5 billion to AED 59.2 billion reflecting a growth of 62% and the non-funded assets of the corporate bank grew from AED 26.3 billion to AED 48.6 billion, reflecting a growth of 85%. Corporate Credit and related units have played a key role in ensuring prudent and proactive management of credit risk across our portfolio. Moving ahead, we will continue to ensure that strict credit risk management processes are in place so as to avoid unmanageable risks. We will put more emphasis on enhancing efficiencies within the existing portfolio while aiming for controlled lending growth and will continue to put emphasis on long-term deposit growth.

Retail Banking Group

The Retail Banking Group has witnessed huge growth in an increasingly competitive market, with assets soaring to AED 19 billion and a bottomline of AED 1 billion; an increase of 295%.

Since January 2007, we have been managing the private Housing Loan scheme on behalf of the Abu Dhabi government. With this innovative scheme, U.A.E. Nationals could avail of interest-free long-term loans for the construction, extension and renovation of their homes.

First Gulf Bank's portfolio of credit cards has grown exponentially along with a distribution network that spans across the U.A.E. In the year 2008, new innovations like the launch of Standing Instructions - a service that allows our customers the convenience of a streamlined payment system. The new Easy Buys Card was also launched. Another key service offering introduced during the year was SMART SERVICES featuring Internet Banking (SMART NET), Mobile Banking (SMART SMS) and Phone Banking (SMART CALL). Combining convenience and superior functionality, SMART SERVICES is designed to simplify the lives of retail banking customers. This year, we also successfully launched Bancassurance - a wide range of life insurance and savings plans. Through this new initiative, we have been able to provide financial stability to our customers when they need it most. Going forward, we will put emphasis on further enhancing our relationship with more stable customer segments and target such segments with customised offerings to suit their lifestyle needs.

Treasury & Investments

Despite the unprecedented turmoil in the global financial markets during 2008, Treasury and Investments was a strong performer contributing AED 376 million to the bottom line of the bank. Treasury was able to efficiently manage its key objective of liquidity management in strained market conditions.

The Group is active in a variety of investment activities and manages substantial proprietary & clients' capital across all major Traditional & Alternative asset classes, regionally and globally. The division seeks to enhance Bank's risk adjusted returns by managing its proprietary capital and also to generate fee income through portfolio and asset management activities. It also offers customised investment solutions for institutional & HNW clients and a full range of investment products & services. Key tenets of the investment philosophy include: (i) focus on high potential, and quality investments (ii) diversification across asset classes (iii) global coverage (iv) medium to long-term orientation and (v) leveraging First Gulf Bank's extensive relationships to source opportunities. The Group also provides financial solutions through Structured Products on an unfunded basis to meet the hedging needs of corporate clients.

The Investment team manages two external funds namely Al Saqer Fund and First Gulf Bank Alternative Investment Fund. Al Saqer Fund is a global macro hedge fund investing in all asset classes across global markets. First Gulf Bank Alternative Investment Funds invests in top quality Private Equity and Hedge Funds and aims for long-term risk adjusted returns.

FI / Syndications Group

Since its establishment in 2002, this Group has been consistently surging ahead to a position of performance excellence in 2008.

As a window to the outside world, the FI Division has consolidated its relationship with local, regional and international banks. This has been instrumental in raising liquidity for the Bank at very attractive rates. The FI Division has played an active role in the confirmation of the Oil LC business. During the course of

2008, Oil LC business amounting to USD 2.8 billion was received from international banks globally; a statistic that has been confirmed by the FI Division.

In addition to revenue generation and liquidity rising, FI also acts as a formidable support to the Corporate Division. The smooth operation of trade finance and the remittance business has also been attributed to the FI Division.

The Syndications Division – including both conventional & Islamic financing - has reported consistently increasing growth. First Gulf Bank is now actively involved in the arranging and financing of syndicated loans for government, semi-government, public sector companies and large conglomerates, based both locally and regionally. Acting in the capacity of Mandated Lead Arranger, Book-runner and Security Agent, First Gulf Bank closed many large transactions in the local market during the year 2008.

International Banking Group

One of the core principles of First Gulf Bank's strategy has been to establish a prominent footprint in select international markets that have an inherent momentum and trade affinity to the U.A.E. The year 2007 had witnessed the birth of the International Business Division within First Gulf Bank and since then it has played a key role in the Bank's international expansion plans. Key milestones achieved in 2008 included launching of First Gulf Libyan Bank (FGLB) in November 2008, obtaining licence to operate a representative office in the UK, obtaining of a category IV licence in the Qatar Financial Centre and obtaining approval for a Representative Office in India. The Singapore Representative Office set up in 2007 has already cemented its place, intermediating trade between Asia and the GCC.

With outposts stretching right from Singapore to London, we will continue to work towards consolidating our foreign offices. In the year ahead, we look forward to operationalising Algeria, transforming the Singapore Representative office into a Wholesale Banking Branch and kick-starting marketing activities from the Representative Offices in Qatar and UK.

Subsidiaries and Associates

Our real estate subsidiaries have continued to display their consistent performance in the year 2008 with income growth of 50% over 2007. With its vision 'to be the most reputed and trusted partner offering complete real estate solutions in the markets we operate', the endeavour presently is to build diversified product lines and business plan to combat the challenging market conditions. I am sure that with the encouraging measures adopted by the government and Central Bank and with our excellent management team, we shall continue to maintain stability and growth in this division. Aseel, our Islamic mortgage services company continues to perform well and had another year of increased profitability for 2008.

Our brokerage subsidiary, First Gulf Financial Services (FGFS) has been providing and supporting its customers with a full range of local equities brokerage services including DIFX. It was incorporated in 2002 and has been successfully meeting the client's needs since then.

Other Groups

Enterprise Risk Management Group

The role of risk management is increasingly becoming more and more important in light of the current global financial crisis. At First Gulf Bank, we have managed to avoid major losses and have been able to demonstrate impressive growth levels amidst this financial crisis, largely due to our efforts in setting up a robust Enterprise Risk Management structure that spans across all units of First Gulf Bank as well as its subsidiaries, associates and foreign offices including representative offices and overseas branches. First Gulf Bank has been one of the very first banks in the region to have set up an independent Enterprise Risk Management Group.

We have put in place a robust risk management framework that is compliant with the Basel II accord.

The bank has successfully implemented Basel II Pillar I principles in relation to credit risk, market risk and operational risk and has fulfilled Pillar II requirements pertaining to Internal Capital Adequacy Assessment Process. The Enterprise Risk Management Group also monitors compliance with regulatory policies and procedures including the anti-money laundering procedures. Going forward, we will continue to invest in further enhancing our risk management framework and processes so as to prevent unnecessary risks from creeping into our books.

Human Resource Group

In line with our business strategy of being a market leader and innovator in financial services, key talent identification, retention and development have never been more important. As we expanded our businesses across geographies, we have added talent from various countries into our operations within the U.A.E. as well as outside. Our compensation strategy has ensured that we reward people competitively and hence are able to attract and retain high-quality talent.

Business Support Group

At First Gulf Bank, we are committed to providing the best possible experience for our customers. Building on that premise, we have continued to invest in people, processes and information technology for both strategic and tactical purposes. During the course of the year, various technology platforms were introduced and implemented. These included trading systems, loan origination systems and systems for international operations. On the infrastructure front, quite a few initiatives were undertaken to effectively support the Bank’s current and future growth. We strengthened the disaster recovery setup and continued to upgrade our hardware & software. Conforming to the direction taken last year to improve efficiency levels, we have outsourced our security operations, technology operations and the core banking development. Our international foray was augmented through the setting up of an IT structure for First Gulf Libyan Bank.

The highlights of the year revolved around setting and improving service standards in retail, streamlining key services in corporate banking and initiating strategic project management services including business transformation for group companies. The continuous improvement in service levels at retail branches, call centres and the website was brought about by a system of Measure, Train and Sustain for all customer interactions. This system was recognised at this year’s U.A.E. Annual Benchmarking Survey for Banking Retail Services, where First Gulf Bank has been ranked second.

The way forward

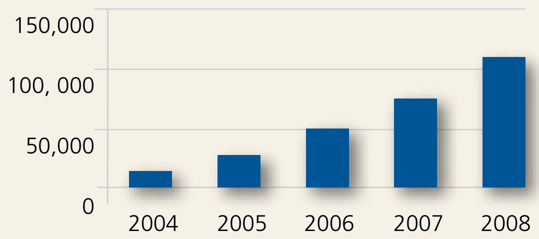
I remain confident of First Gulf Bank’s performance in 2009 and beyond as this performance is based on a strong strategy and an operating process which is second to none. We have over a number of years demonstrated consistent performance and this will continue based on a strong strategy and the will of all the stakeholders of First Gulf Bank. I would like to thank our customers, shareholders and staff for their commitment to the First Gulf Bank story. I would also like to thank our board members for their continued support and direction in very challenging times. I remain optimistic about the future as I believe we have all the elements to take First Gulf Bank to its vision of a global financial institution.

André Sayegh
Chief Executive Officer

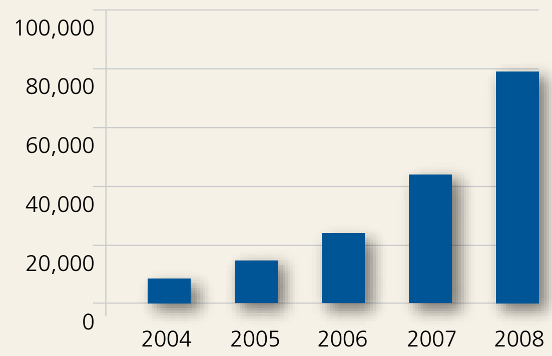
GROWTH INDICATORS

All figures are shown in millions of U.A.E. Dirhams

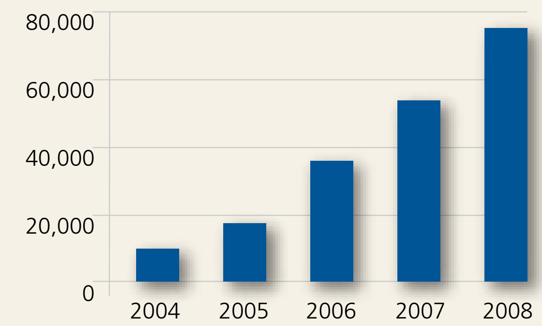
Total Assets



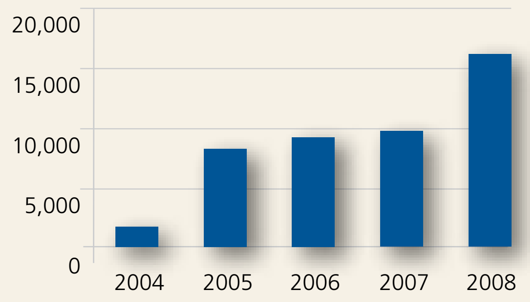
Customer Loans and Advances (Net)



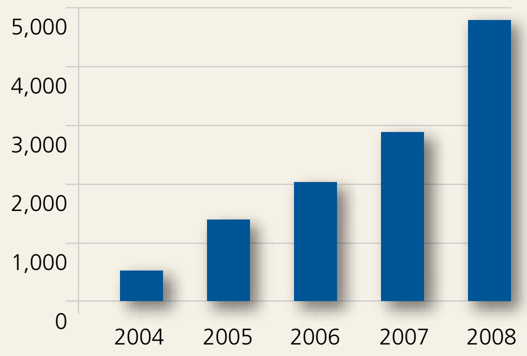
Customers' Deposits



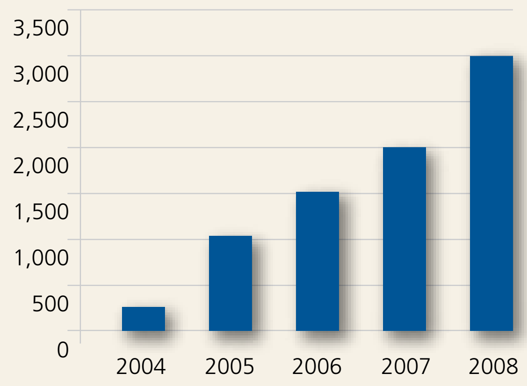
Shareholders’ Equity



Operating Income



Net Profit



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FIRST GULF BANK PJSC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First Gulf Bank PJSC and its subsidiaries ("the Bank"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank and the U.A.E. Commercial Companies Law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the U.A.E. Commercial Companies Law of 1984 (as amended) and the articles of association of the Bank; proper books of account have been kept by the Bank, and the contents of the Chairman's Report relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the U.A.E. Commercial Companies Law of 1984 (as amended) or the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young

Andre Kasparian
Partner
Ernst & Young
Registration No. 365

27 January 2009
Abu Dhabi

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 AED 000	2007 AED 000	2008 US$ 000	2007 US$ 000
Assets					
Cash and balances with U.A.E. Central Bank	3	**5,005,045**	8,977,874	**1,362,659**	2,444,289
Due from banks and financial institutions	25	**2,837,412**	4,184,886	**772,505**	1,139,365
Loans and advances	4	**79,362,996**	44,409,268	**21,607,132**	12,090,734
Non-trading investments	5	**9,979,576**	10,110,186	**2,717,009**	2,752,569
Investment in associates	6	**553,030**	326,383	**150,566**	88,860
Investment properties	7	**3,991,341**	2,922,286	**1,086,671**	795,613
Other assets	8	**3,780,048**	740,813	**1,029,145**	201,690
Property and equipment	9	**2,012,260**	1,525,849	**547,852**	415,423
Total assets		**107,521,708**	73,197,545	**29,273,539**	19,928,543
Liabilities					
Due to banks	10	**3,112,642**	2,786,232	**847,439**	758,571
Due to U.A.E. Central Bank	11	**4,200,000**	-	**1,143,479**	-
Customers' deposits	12	**73,962,659**	52,256,069	**20,136,852**	14,227,081
Medium term loans	13	**5,784,975**	5,784,975	**1,575,000**	1,575,000
Other liabilities	14	**3,841,822**	2,249,835	**1,045,963**	612,533
Total liabilities		**90,902,098**	63,077,111	**24,748,733**	17,173,185
Equity					
Equity attributable to equity holders of the Bank					
Share capital	15	**1,375,000**	1,250,000	**374,353**	340,321
Treasury shares	16	**(44,871)**	-	**(12,216)**	-
Legal reserve	17	**5,305,110**	5,305,110	**1,444,353**	1,444,353
Special reserve	17	**846,648**	546,123	**230,506**	148,686
General reserve	17	**120,000**	120,000	**32,671**	32,671
Revaluation reserve	9	**70,730**	70,730	**19,257**	19,257
Reserve for bonus issue	17	**-**	125,000	**-**	34,032
Cash dividends	17	**477,400**	250,000	**129,976**	68,064
Retained earnings		**4,545,986**	2,378,661	**1,237,677**	647,607
Cumulative changes in fair values		**(32,516)**	74,801	**(8,853)**	20,365
Foreign currency translation reserve		**(18,246)**	-	**(4,968)**	-
Mandatory convertible bonds	18	**3,600,000**	-	**980,125**	-
		16,245,241	10,120,425	**4,422,881**	2,755,356
Minority interests		**374,369**	9	**101,925**	2
Total equity		**16,619,610**	10,120,434	**4,524,806**	2,755,358
Total equity and liabilities		**107,521,708**	73,197,545	**29,273,539**	19,928,543

Vice Chairman　　Managing Director　　Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	**2008 AED 000**	2007 AED 000	**2008 US$ 000**	2007 US$ 000
Interest income and income from Islamic financing	19	**4,957,185**	3,602,851	**1,349,628**	980,901
Interest expense and Islamic financing expense	20	**(2,376,685)**	(2,271,539)	**(647,069)**	(618,442)
NET INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING		**2,580,500**	1,331,312	**702,559**	362,459
Share of profits of associates	6	**156,943**	72,713	**42,729**	19,797
Other operating income	21	**1,961,006**	1,421,781	**533,898**	387,090
OPERATING INCOME		**4,698,449**	2,825,806	**1,279,186**	769,346
General and administrative expenses	22	**(1,134,896)**	(610,701)	**(308,983)**	(166,268)
PROFIT FROM OPERATIONS BEFORE IMPAIRED ASSETS CHARGE		**3,563,553**	2,215,105	**970,203**	603,078
Impaired assets charge	23	**(566,350)**	(206,946)	**(154,193)**	(56,343)
PROFIT FOR THE YEAR		**2,997,203**	2,008,159	**816,010**	546,735
Attributable to:					
Equity holders of the Bank		**3,005,250**	2,008,180	**818,201**	546,741
Minority interests		**(8,047)**	(21)	**(2,191)**	(6)
		2,997,203	2,008,159	**816,010**	546,735
Basic and diluted earnings per share	24	**AED 2.10**	AED 1.46	**US$ 0.57**	US$ 0.40

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2008

	Notes	*2008* **AED 000**	*2007* *AED 000*	*2008* **US$ 000**	*2007* *US$ 000*
OPERATING ACTIVITIES					
Profit for the year		**2,997,203**	2,008,159	**816,010**	546,735
Adjustments for:					
Depreciation	9	**38,810**	25,460	**10,566**	6,931
Profit on sale of property and equipment	21	**(98,684)**	(10)	**(26,867)**	(3)
Provision for impaired loans and advances	23	**566,350**	206,946	**154,193**	56,342
Government grant	21	**-**	(50,852)	**-**	(13,844)
Gain on revaluation of investment properties	7	**(288,437)**	(426,998)	**(78,529)**	(116,253)
Gain on sale of investment properties	21	**(240,119)**	-	**(65,374)**	-
Loss (gain) from investments	21	**262,434**	(256,428)	**71,449**	(69,813)
Share of profits of associates	6	**(156,943)**	(72,713)	**(42,729)**	(19,796)
Operating profit before changes in operating assets and liabilities:		**3,080,614**	1,433,564	**838,719**	390,299
Deposits with banks		**524,999**	(524,999)	**142,935**	(142,935)
Deposits with U.A.E. Central bank		**(865,000)**	(1,835,000)	**(235,502)**	(499,592)
Loans and advances		**(35,520,078)**	(19,819,645)	**(9,670,590)**	(5,396,037)
Other assets		**(860,476)**	(370,033)	**(234,271)**	(100,744)
Due to U.A.E. Central Bank		**4,200,000**	-	**1,143,479**	-
Due to banks		**326,410**	2,488,799	**88,868**	677,593
Customers' deposits		**21,706,590**	17,821,723	**5,909,771**	4,852,089
Other liabilities		**1,565,405**	787,544	**426,191**	214,415
Cash used in operations		**(5,841,536)**	(18,047)	**(1,590,400)**	(4,912)
Directors' remuneration paid		**(50,000)**	(38,500)	**(13,613)**	(10,482)
Net cash used in operating activities		**(5,891,536)**	(56,547)	**(1,604,013)**	(15,394)
INVESTING ACTIVITIES					
Purchase of non-trading investments		**(14,793,711)**	(12,733,935)	**(4,027,692)**	(3,466,904)
Proceeds from redemption and sale of non-trading investments		**13,148,219**	7,654,049	**3,579,695**	2,083,868
Purchase of property and equipment	9	**(1,414,218)**	(1,250,227)	**(385,031)**	(340,383)
Investments in associates		**(80,000)**	(8,994)	**(21,781)**	(2,448)
Dividends from associates		**10,275**	10,283	**2,797**	2,800
Additions to investment properties	7	**(1,198,692)**	(714,300)	**(326,352)**	(194,474)
Proceeds from sale of investment properties		**658,193**	-	**179,198**	-
Proceeds from disposal of property and equipment		**215,521**	15	**58,677**	4
Net cash used in investing activities		**(3,454,413)**	(7,043,109)	**(940,489)**	(1,917,537)
FINANCING ACTIVITIES					
Mandatory convertible bonds	18	**3,600,000**	-	**980,125**	-
Acquisition of treasury shares		**(44,871)**	-	**(12,216)**	-
Capital contribution by minority shareholders		**382,407**	30	**104,114**	8
Dividends paid	17	**(233,645)**	(868,490)	**(63,611)**	(236,452)
Draw-down of medium term loan	13	**-**	3,030,450	**-**	825,000
Repayment of medium term loan		**-**	(643,000)	**-**	(175,000)
Net cash from financing activities		**3,703,891**	1,518,990	**1,008,412**	413,556
DECREASE IN CASH AND CASH EQUIVALENTS		**(5,642,058)**	(5,580,666)	**(1,536,090)**	(1,519,375)
Cash and cash equivalents at 1 January		**10,802,761**	16,383,427	**2,941,128**	4,460,503
Net changes in foreign currency translation reserve		**(18,246)**	-	**(4,968)**	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	**5,142,457**	10,802,761	**1,400,070**	2,941,128

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the Bank											
	Share capital AED 000	*Legal reserve AED 000*	*Special reserve AED 000*	*General reserve AED 000*	*Revaluation reserve AED 000*	*Reserve for bonus issue AED 000*	*Cash dividends AED 000*	*Retained earnings AED 000*	*Cumulative changes in fair values AED 000*	*Total AED 000*	*Minority interests AED 000*	*Total equity AED 000*
Balance at 1 January 2007	1,250,000	5,305,110	345,123	120,000	70,730	-	875,000	996,481	23,046	8,985,490	-	8,985,490
Net unrealised gains on available for sale investments	-	-	-	-	-	-	-	-	146,277	146,277	-	146,277
Realised gains on available for sale investments reclassified to the income statement on disposal	-	-	-	-	-	-	-	-	(94,522)	(94,522)	-	(94,522)
Board of directors remuneration (Note 26)	-	-	-	-	-	-	-	(50,000)	-	(50,000)	-	(50,000)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	-	(50,000)	51,755	1,755	-	1,755
Profit for the year	-	-	-	-	-	-	-	2,008,180	-	2,008,180	(21)	2,008,159
Total income for the year	-	-	-	-	-	-	-	1,958,180	51,755	2,009,935	(21)	2,009,914
Transfer to dividends payable	-	-	-	-	-	-	(875,000)	-	-	(875,000)	-	(875,000)
Transfer to special reserve (Note 17)	-	-	201,000	-	-	-	-	(201,000)	-	-	-	-
Proposed bonus issue (Note 17)	-	-	-	-	-	125,000	-	(125,000)	-	-	-	-
Proposed cash dividends (Note 17)	-	-	-	-	-	-	250,000	(250,000)	-	-	-	-
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	30	30
Balance at 31 December 2007	1,250,000	5,305,110	546,123	120,000	70,730	125,000	250,000	2,378,661	74,801	10,120,425	9	10,120,434

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the Bank														
	Share capital AED 000	Treasury shares AED 000	Legal reserve AED 000	Special reserve AED 000	General reserve AED 000	Revaluation reserve AED 000	Reserve for bonus issue AED 000	Cash dividends AED 000	Retained earnings AED 000	Cumulative changes in fair values AED 000	Foreign currency translation reserve AED 000	Mandatory Convertible Bonds AED 000	Total AED 000	Minority interests AED 000	Total equity AED 000
Balance at 1 January 2008	1,250,000	-	5,305,110	546,123	120,000	70,730	125,000	250,000	2,378,661	74,801	-	-	10,120,425	9	10,120,434
Net unrealised losses on available for sale investments	-	-	-	-	-	-	-	-	-	(85,659)	-	-	(85,659)	-	(85,659)
Share of changes recognised directly in associates' equity	-	-	-	-	-	-	-	-	-	97	-	-	97	-	97
Realised gains on available for sale investments reclassified to the income statement on disposal	-	-	-	-	-	-	-	-	-	(21,755)	-	-	(21,755)	-	(21,755)
Foreign exchange translation	-	-	-	-	-	-	-	-	-	-	(18,246)	-	(18,246)	-	(18,246)
Board of directors remuneration (Note 26)	-	-	-	-	-	-	-	-	(60,000)	-	-	-	(60,000)	-	(60,000)
Total expense for the year recognised directly in equity	-	-	-	-	-	-	-	-	(60,000)	(107,317)	(18,246)	-	(185,563)	-	(185,563)
Profit for the year	-	-	-	-	-	-	-	-	3,005,250	-	-	-	3,005,250	(8,047)	2,997,203
Total income and expense for the year	-	-	-	-	-	-	-	-	2,945,250	(107,317)	(18,246)	-	2,819,687	(8,047)	2,811,640
Transfer to dividends payable	-	-	-	-	-	-	-	(250,000)	-	-	-	-	(250,000)	-	(250,000)
Transfer to special reserve (Note 17)	-	-	-	300,525	-	-	-	-	(300,525)	-	-	-	-	-	-
Proposed cash dividends (Note 17)	-	-	-	-	-	-	-	477,400	(477,400)	-	-	-	-	-	-
Bonus shares issued	125,000	-	-	-	-	-	(125,000)	-	-	-	-	-	-	-	-
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	382,407	382,407
Net purchase of treasury shares (Note 16)	-	(44,871)	-	-	-	-	-	-	-	-	-	-	(44,871)	-	(44,871)
Issuance of mandatory convertible bonds (Note 18)	-	-	-	-	-	-	-	-	-	-	-	3,600,000	3,600,000	-	3,600,000
Balance at 31 December 2008	1,375,000	(44,871)	5,305,110	846,648	120,000	70,730	-	477,400	4,545,986	(32,516)	(18,246)	3,600,000	16,245,241	374,369	16,619,610

The attached notes 1 to 32 form part of these consolidated financial statements.

1 ACTIVITIES

First Gulf Bank PJSC ("the Bank") is a public joint stock company with limited liability incorporated in Abu Dhabi in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended). The Bank carries on commercial, investment and retail banking through its head office and branches in Abu Dhabi and its other branches in Dubai, Ajman, Sharjah, Fujairah, Al Ain and Ras Al Khaimah. The representative office of the Bank has commenced operations in Singapore from June 2007. Under an agreement signed with the Economic and Social Development Fund of Libya, a commercial bank (First Gulf Libyan Bank) was established in Libya which commenced activities in November 2008. The First Gulf Libyan Bank which is being managed by the Bank, has a paid up capital of USD 200 million which has been contributed equally by both parties.

The principal activities of the Bank are described in Note 29.

The registered head office of the Bank is at PO Box 6316, Abu Dhabi, United Arab Emirates (U.A.E.).

The consolidated financial statements of the Bank were authorised for issue by the Board of Directors on 27 January 2009.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of the Laws in the U.A.E.

The consolidated financial statements have been prepared under the historical cost convention except for investment securities (other than held to maturity investments), derivative financial instruments and investment properties which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements of the Bank are prepared in United Arab Emirates Dirhams (AED) which is the functional currency of the Bank. The consolidated balance sheet, consolidated income statement and consolidated statement of cash flows in US Dollar (US$) are presented solely for the convenience of the readers of the consolidated financial statements. The AED amounts have been translated at the rate of AED 3.673 to US$1 (2007: AED 3.673 to US$ 1).

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Future changes in accounting policies

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

IFRS 8 Operating Segments

IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Bank discloses information about its operating segments.

Amendments to IAS 1 – Presentation of Financial Statements

The Bank has not adopted the revised IAS 1 "Presentation of Financial Statements" which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Future changes in accounting policies *(continued)*

Amendments to IAS 40 – Investment Property
The Bank has not adopted the revised IAS 40 "Investment Property" which will be effective for the year ending 31 December 2009. The application of this standard will require properties under construction to be carried at fair value unless their fair value is not reliably determinable. This amendment will be applied on a prospective basis.

The Bank does not expect that other new or amended standards applicable for the year ending 31 December 2009 will have a significant effect on its financial statements.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and those of its following subsidiaries:

	Activity	*Country of incorporation*	*Percentage of holding*	
			2008	*2007*
Mismak Properties Co. LLC (Mismak)	Real estate investments	United Arab Emirates	**100%**	100%
Radman Properties Co. LLC (Subsidiary of Mismak)	Real estate investments	United Arab Emirates	**80%**	80%
First Merchant International LLC	Merchant banking services	United Arab Emirates	**100%**	100%
First Gulf Libyan Bank	Banking services	Libya	**50%**	-

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. 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 results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of the profit and net assets in subsidiaries not held by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the Bank shareholders' equity.

Due from banks
Due from banks are stated at amortised cost using the effective interest rate less any amounts written off and provision for impairment.

Trading investments
These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in the income statement.

Non-trading investments
These are classified as follows:
- Held to maturity
- Available for sale
- Investments carried at fair value through income statement
- Investments carried at amortised cost

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Non-trading investments *(continued)*

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges (except for investments carried at fair value through the income statement) associated with the investment. Premiums and discounts on non-trading investments (excluding those carried at fair value through income statement) are amortised using the effective interest rate method and taken to interest income.

Held to maturity
Investments which have fixed or determinable payments and are intended to be held to maturity, are carried at amortised cost, less provision for impairment in value.

Available for sale
After initial recognition, investments which are classified "available for sale" are remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the income statement.

Investments carried at fair value through income statement
Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the documented strategy of the Bank. Investments classified as "Investments at fair value through income statement" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the income statement.

Investment in associates
The Bank's investment in associates is accounted for under the equity method of accounting. An associate is an entity in which the Bank has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Bank has incurred obligations on its behalf.

The Bank's share of the result of operations of associates is included in the consolidated income statement. Unrealised profits and losses from transactions between the Bank and an associate are eliminated to the extent of the Bank's interest in the associate. The reporting dates of associates and the Bank are identical and the associates' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Repurchase and reverse repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date ("Repo") are not derecognised. The counterparty liability for amounts received under these agreements is included in due to banks or customers' deposits in the balance sheet, as appropriate. The difference between the sale and repurchase price is treated as interest expense which is accrued over the life of the repo agreement.

Conversely, securities purchased under agreements to resell at a specified future date ("Reverse Repos") are not recognised on the balance sheet. The corresponding cash paid, including accrued interest, is included in loans and advances. The difference between the purchase price and resale prices is treated as interest income which is accrued over the life of the Reverse Repos.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loans and advances

These are stated at cost, adjusted for effective hedges and stated net of interest suspended less any amounts written off and provision for impairment. Impaired loans are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Islamic financing

Islamic financing comprise principally of floating profit-rate Ijara and Murabaha contracts which are stated at cost less any provisions for impairment.

Impairment and uncollectibility of financial assets

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

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

(b) for assets carried at fair value, impairment is the difference between cost and fair value.

(c) for assets carried at cost, impairment is based on the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments, reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity.

In addition, a provision is made to cover collective impairment for specific groups of assets carried at amortised cost, where there is a measurable decrease in estimated future cash flows.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the Bank receives non-monetary grants with no conditions attached thereto, the asset and grant are recorded at fair value and the grant is recognised in the income statement in the period in which it is received. In the case of other non-monetary grants, the grant is set up as deferred income at its fair value and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

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

Property and equipment

Property and equipment are initially recorded at cost. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed the recoverable amount, assets are written down.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment *(continued)*

Depreciation is provided on a straight-line basis on all property and equipment, other than freehold land which is determined to have an indefinite life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Motor vehicles	3 years
Furniture, fixtures and equipment	4 years
Computer hardware and software	4 years

Capital work-in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

Collateral pending sale
The Bank occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised impairment losses are recognised in the income statement.

Provisions
Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Deposits
All money market and customer deposits are carried at amortised cost less amounts repaid.

Treasury shares
Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancelation of the Bank's own equity instruments.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these consolidated financial statements.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i. Interest income and expense

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

ii. Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

iii. Dividend income

Revenue is recognised when the Bank's right to receive the payment is established.

iv. Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

v. Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement in 'Other operating income'.

vi. Income from Islamic financing

Income from Islamic financing is recognised on a time-proportion basis based on principal amounts outstanding.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into U.A.E. Dirhams at rates of exchange prevailing at the balance sheet date. Any gains and losses are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign operation, the deferred cumulative amount recognised in the equity relating to a particular foreign operation is recognised in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with U.A.E. Central Bank and due from banks and other financial institutions with original maturities of less than three months.

Employees' pension and end of service benefits

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

With respect to its U.A.E. national employees, the Bank makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

Leases

Finance leases, which transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the shorter of the lease term or the estimated useful life of the asset.

Derivatives

The Bank enters into derivative financial instruments including forwards, swaps, futures, options and swaptions in the foreign exchange and capital markets. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

Hedges

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

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the income statement.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the income statement in the period in which the hedged transaction impacts the income statement or included in the initial measurement of the cost of the related asset or liability.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Hedges *(continued)*

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken to the income statement.

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 in time, in the case of a cash flow hedge, any cumulative gains or losses on the hedging instrument initially recognised in equity remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the income statement. In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Trade and settlement date accounting
Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

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

Financial guarantees
Financial guarantees are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so. Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans and advances. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

De-recognition of financial assets and liabilities
The Bank de-recognises all or part of a financial asset when the contractual rights to the cash flows on the asset expire or when the Bank has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset. The Bank de-recognises all or part of a financial liability when the liability is extinguished in full or in part.

Fair values
For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, private equity funds or similar investment vehicles is based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair values *(continued)*

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

The fair value of unquoted investments is determined by reference to discounted cash flows, pricing models, net asset base of investee companies or broker over-the-counter quotes.

Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of investments

The Bank treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgement for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies.

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a quarterly basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

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

3 CASH AND BALANCES WITH U.A.E. CENTRAL BANK

	2008	2007
	AED 000	AED 000
Cash on hand	**237,847**	96,517
Balances with U.A.E. Central Bank	**4,767,198**	8,881,357
	5,005,045	8,977,874

Balances with U.A.E. Central Bank include AED 1,855,876 thousand (2007: AED 1,086,699 thousand) representing mandatory cash reserve deposits and AED 2,700,000 thousand (2007: nil) representing certificates of deposit pledged against short-term advances obtained from the U.A.E. Central Bank (Note 11). These are not available for use in the Bank's day-to-day operations.

4 LOANS AND ADVANCES

The composition of loans and advances portfolio is as follows:

	2008	2007
	AED 000	AED 000
Economic Sector		
Agriculture	**120,566**	78,735
Energy	**2,225,531**	1,768,968
Trading	**4,574,152**	2,829,337
Construction	**5,082,106**	2,273,822
Transport	**1,181,284**	871,984
Personal - Retail loans and credit cards	**15,880,750**	7,106,618
Personal - Retail mortgages	**4,066,657**	522,108
Personal - Others	**10,232,807**	5,917,544
Government	**2,173,459**	477,774
Share financing	**5,289,226**	4,242,168
Real estate	**14,069,780**	8,475,030
Services	**12,968,290**	8,015,993
Manufacturing	**2,639,179**	2,482,977
Total	**80,503,787**	45,063,058
Less provision for impaired loans and advances	**(1,140,791)**	(653,790)
Total	**79,362,996**	44,409,268
Representing:		
Conventional loans and advances	**74,549,324**	42,097,063
Islamic financing	**4,813,672**	2,312,205
Total	**79,362,996**	44,409,268

Loans and advances include an amount of AED 722,527 thousand (2007: AED 592,386 thousand) being amounts lent against the purchase of debt securities under reverse repurchase agreements with arrangements to resell them at a fixed future date.

Loans and advances to customers are stated net of provision for impairment. The movements in the provision during the year were as follows:

	2008	2007
	AED 000	AED 000
At 1 January	**653,790**	466,769
Amounts written off	**(73,479)**	(12,113)
Recoveries (Note 23)	**(26,132)**	(7,307)
Charge for the year (Note 23)	**592,482**	214,253
Notional interest on impaired loans and advances (Note 19)	**(5,870)**	(7,812)
At 31 December	**1,140,791**	653,790

At 31 December 2008, loans and advances on which normal interest is not being accrued, or is suspended, amounted to AED 489,876 thousand (2007: AED 452,834 thousand).

5 NON-TRADING INVESTMENTS

		2008	2007
		AED 000	AED 000
Carried at fair value through income statement			
Investments in managed funds		**520,508**	754,507
Investments in equities	- Quoted	**240,431**	307,160
Available for sale investments			
Investments in equities	- Quoted	**5,738**	1,488,472
	- Unquoted	**120,162**	127,484
Investments in private equity funds		**1,134,777**	864,783
Convertible bonds		**25,069**	104,980
Held to maturity investments			
Debt securities	- Quoted	**3,660,278**	18,365
	- Unquoted	**4,272,613**	6,444,435
Total		**9,979,576**	10,110,186
Analysis of debt securities:			
Fixed rate		**4,208,322**	6,275,585
Floating rate		**3,749,638**	292,195

Geographic analysis of investments is as follows:

Within U.A.E.	**2,694,876**	1,041,016
Outside U.A.E.	**7,284,700**	9,069,170
	9,979,576	10,110,186

5 NON-TRADING INVESTMENTS *(continued)*

Investments in managed funds represent investments made in managed hedge funds which invest in equities, debt securities and derivatives with the objective of generating superior returns on a risk-adjusted basis using a diversified portfolio approach.

Investments in private equity funds represent investments made in funds and limited partnerships to fund primary investment commitments in target companies with the objective of generating returns outperforming the public equity markets.

Investments in equities amounting to AED 40,042 thousand (2007: AED 79,461 thousand) are held in the name of third parties with the beneficial interest assigned to the Bank.

Debt securities represent bonds with maturities ranging up to 10 years from the balance sheet date. Of the debt securities at 31 December 2008, 71% (2007: 90%) comprise bonds which are either guaranteed by governments or issued by entities owned by governments.

At 31 December 2008, the Bank's largest holding of debt securities issued by a single issuer accounted for 46% (2007: 20%) of total investments.

At 31 December 2008, debt securities with a carrying value of AED 4,554,520 thousand (2007: AED 4,683,075 thousand) were pledged under repurchase agreements with overseas financial institutions and banks with a principal value of AED 4,430,100 thousand (2007: AED 4,596,176 thousand). Debt securities with a carrying value of AED 2,056,867 thousand (2007: nil) were pledged against short-term advances obtained from U.A.E. Central Bank (Note 11).

The fair value of held to maturity investments at 31 December 2008 amounted to AED 7,904,786 thousand (2007: AED 6,469,924 thousand).

All unquoted available for sale equities are recorded at fair value except for investments amounting to AED 64,292 thousand (2007: AED 98,561 thousand) which are recorded at cost since their fair values cannot be reliably estimated. There is no active market for these investments and the Bank intends to hold them for the long term.

During the year, the Bank entered into an equity swap in respect of an investment it held in a quoted equity, whereby the rights and benefits to the investment were transferred to a third party in exchange for the payment of interest at the rate of EURIBOR plus 0.5% for the duration of the swap agreement of 5 years. Under the swap agreement, any appreciation or decline in value of the investment at maturity or termination of the swap, if earlier, would be ceded to the third party. Accordingly, the investment in the quoted equity was de-recognised and the balance outstanding from the third party representing the value of the investment of AED 1,406 million at the inception of the swap agreement was recorded under other assets (Note 8). This is a non-cash flow transaction which has been excluded from the statement of cash flows.

6 INVESTMENT IN ASSOCIATES

The Bank has the following investments in associates:

	Percentage of holding	
	2008	2007
First Gulf Financial Services LLC	**45%**	45%
Green Emirates Properties PJSC	**40%**	40%
Aseel Finance PJSC	**40%**	40%

First Gulf Financial Services LLC ("FGFS"), is a limited liability company which is incorporated in the Emirate of Abu Dhabi and provides equity brokerage services in the United Arab Emirates.

Green Emirates Properties PJSC is a private joint stock company incorporated in the Emirate of Abu Dhabi and engaged mainly in the management and brokerage of real estate properties in United Arab Emirates and overseas.

Aseel Finance PJSC is a private joint stock company which is incorporated in the Emirate of Abu Dhabi and provides Islamic financial services.

Summarised financial information on the investment in associates is set out below.

	2008	2007
	AED 000	AED 000
Share of associates' balance sheet		
Assets	**1,159,319**	715,739
Liabilities	**606,289**	389,356
Net assets	**553,030**	326,383
Carrying amount of investment in associates	**553,030**	326,383
Share of associates' revenue and profit:		
Revenue	**213,913**	98,596
Profit for the year	**156,943**	72,713

As of 31 December 2008, the Bank's share of the contingent liabilities of associates amounted to AED 336,131 thousand (2007: AED 285, 623 thousand).

7 INVESTMENT PROPERTIES

	2008	2007
	AED 000	AED 000
Balance at 1 January	**2,922,286**	532,712
Government grant (Note 21)	-	50,852
Additions	**1,198,692**	1,514,300
Disposals	**(418,074)**	-
Transfer from property and equipment (Note 9)	-	33,224
Property acquired in settlement of debt	-	364,200
Gain from fair value adjustment (Note 21)	**288,437**	426,998
At 31 December	**3,991,341**	2,922,286

Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. Investment properties have been valued as follows:

7 INVESTMENT PROPERTIES *(continued)*

As of 31 December 2008, investment properties include properties with a carrying value of AED 2,996,839 thousand (2007: AED 1,633,038 thousand) which were valued by independent professional valuers. For the balance of the investment properties, valuations were performed by management. Management considers various factors in determining fair value including the location of land plots, prevailing prices of land and valuations of similar plots carried out by independent professional valuers.

Additions in 2007 include a plot of land purchased for AED 1 billion payable in instalments amounting to AED 200 million in 2007 and AED 800 million in 2008. The latter has been excluded from the comparative consolidated statement of cash flows.

Property acquired in settlement of debt amounting to AED 364.2 million includes two commercial buildings constructed on two plots of land in addition to a vacant plot of land which were acquired in settlement of debt in 2007. This non-cash transaction has been excluded from the consolidated statement of cash flows. During the year 2007, the properties were revalued to their estimated fair value based on a professional valuation performed by independent real estate valuers. The increase in fair value amounting to AED 72.75 million was recorded in other operating income in 2007.

Government grants represent plots of land granted by the Government of Abu Dhabi and stated at fair value based on a professional valuation performed by independent real estate valuers. There are no unfulfilled conditions or contingencies attaching to these grants. These non-cash transactions have been excluded from the consolidated statement of cash flows.

The property rental income earned by the Bank from its investment properties, that are leased out under operating leases, amounted to AED 115,635 thousand (2007: AED 44,675 thousand).

8 OTHER ASSETS

	2008	2007
	AED 000	AED 000
Interest receivable	**706,376**	480,752
Prepayments	**187,073**	62,893
Positive fair value of derivatives (Note 28)	**595,055**	133,296
Receivable under equity swaps (Note 5)	**1,597,748**	-
Receivable from sale of properties under development	**403,180**	-
Others	**290,616**	63,872
Total	**3,780,048**	740,813

Receivable under equity swaps include an interest bearing receivable arising from an equity swap entered into by the Bank during the year as further discussed in Note 5.

9 PROPERTY AND EQUIPMENT

	Land *AED 000*	*Buildings* *AED 000*	*Capital work-in progress* *AED 000*	*Motor vehicles* *AED 000*	*Furniture fixtures & equipment* *AED 000*	*Computer hardware & software* *AED 000*	*Total* *AED 000*
Cost or valuation:							
At 1 January 2008	135,173	140,731	1,201,741	865	53,391	89,463	1,621,364
Additions during the year	175,768	42,061	1,139,409	500	28,679	27,801	1,414,218
Transfers	-	150,450	(142,593)	-	(6,756)	(1,101)	-
Cost of disposals	-	-	(888,982)	(325)	-	(46)	(889,353)
At 31 December 2008	**310,941**	**333,242**	**1,309,575**	**1,040**	**75,314**	**116,117**	**2,146,229**
Depreciation:							
At 1 January 2008	-	19,480	-	623	33,911	41,501	95,515
Provided during the year	-	11,977	-	296	9,387	17,150	38,810
Transfers	-	6,818	-	-	(6,224)	(594)	-
Disposals	-	-	-	(325)	-	(31)	(356)
At 31 December 2008	**-**	**38,275**	**-**	**594**	**37,074**	**58,026**	**133,969**
Net book value:							
At 31 December 2008	**310,941**	**294,967**	**1,309,575**	**446**	**38,240**	**58,091**	**2,012,260**
Cost or valuation:							
At 1 January 2007	147,872	130,526	18,927	865	44,403	63,253	405,846
Additions during the year	49,440	15,205	1,149,170	-	9,031	27,381	1,250,227
Transfers to investment properties (Note 7)	(62,139)	(5,000)	33,644	-	-	-	(33,495)
Cost of disposals	-	-	-	-	(43)	(1,171)	(1,214)
At 31 December 2007	135,173	140,731	1,201,741	865	53,391	89,463	1,621,364
Depreciation:							
At 1 January 2007	-	12,032	-	401	26,603	32,499	71,535
Provided during the year	-	7,719	-	222	7,351	10,168	25,460
Transfers to investment properties (Note 7)	-	(271)	-	-	-	-	(271)
Disposals	-	-	-	-	(43)	(1,166)	(1,209)
At 31 December 2007	-	19,480	-	623	33,911	41,501	95,515
Net book value:							
At 31 December 2007	135,173	121,251	1,201,741	242	19,480	47,962	1,525,849

In prior years, the Bank was granted plots of land by the Government of Abu Dhabi and Dubai. The granted plots which were used for the Bank's premises were revalued in prior years to their estimated fair value based on professional valuations performed by independent real estate valuers. The surplus on revaluation of the granted plots of AED 70,730 thousand was transferred to the revaluation reserve which is not available for distribution.

Capital work in progress include AED 1,304,081 thousands (2007: AED 1,090,002 thousand) representing properties under development which will be transferred less disposals, to investment properties when complete.

10 DUE TO BANKS

	2008	*2007*
	AED 000	*AED 000*
Current and demand deposits	**235,906**	84,183
Deposits maturing within one year	**2,876,736**	2,702,049
Total	**3,112,642**	2,786,232

As of 31 December 2008, deposits maturing within one year include a deposit of AED 870,325 thousand (2007: AED nil) from overseas banks held against the sale of debt securities with arrangements to repurchase them at a fixed future date.

11 DUE TO U.A.E. CENTRAL BANK

This represents short-term advances obtained from the U.A.E. Central Bank. The balances are repayable by January 2009 and are secured by a pledge over deposits held with the Central Bank (Note 3) and debt securities (Note 5).

12 CUSTOMERS' DEPOSITS

	2008	*2007*
	AED 000	*AED 000*
Current accounts	**5,584,114**	3,198,191
Saving accounts	**136,341**	96,505
Time deposits	**59,628,002**	42,144,864
Call and other deposits	**8,614,202**	6,816,509
Total	**73,962,659**	52,256,069

As of 31 December 2008, time deposits include a deposit of AED 3,599,775 thousand (2007: AED 5,882,897 thousand) from overseas financial institutions held against the sale of debt securities with arrangements to repurchase them at a fixed future date.

In December 2006, the Bank received an amount of AED 5 billion from the Government of Abu Dhabi (the "Government") to fund an interest-free housing loan scheme for U.A.E. Nationals and is recorded in call and other deposits. The scheme is being administered by the Bank based on various terms and conditions agreed with the Government. As of 31 December 2008, the Government time deposit amounted to AED 5,644 million (2007: AED 5,266 million) and housing loans amounting to AED 2,579 million (2007: AED 300 million) were disbursed by the Bank. Interest is payable on this Government deposit at market rates based on the principal amount net of loan disbursements made.

As of 31 December 2008, time deposits also include deposits of AED 4,510,087 thousand (2007: AED nil) placed by the U.A.E. Federal Government for a period of 3-5 years which are subject to the Bank meeting certain minimum capital ratios and other Central Bank compliance requirements.

As of 31 December 2008, the top 5 depositors accounted for 33% of total customer deposits (2007: 37%).

13 MEDIUM-TERM LOANS

Loan 1:

During 2006, the Bank obtained a loan of US$ 750 million (equivalent of AED 2,755 million) from a syndicate comprising of several foreign and local banks. The loan is repayable in full in March 2009. The loan accrues interest at the rate of LIBOR plus a margin of 0.3% plus mandatory cost calculated by the Facility Agent as weighted average of the Lender's additional cost rates, which are payable semi-annually. The loan is subject to various terms, covenants and conditions. Specifically, the Bank should ensure that its capital adequacy ratio shall not at any time be less than the Basel minimum capital requirements as implemented in the U.A.E. under the guidelines of the Central Bank and should also ensure that the tangible net worth is not at any time less than AED 6 billion.

Loan 2:

During 2007, the Bank obtained a loan of US$ 825 million (equivalent of AED 3,030 million) from a syndicate comprising of several foreign and local banks. The loan is repayable in full in November 2012. The loan accrues interest at the rate of LIBOR plus a margin of 0.275% per annum plus mandatory cost calculated by the Facility Agent as weighted average of the Lender's additional cost rates, which are payable quarterly. The loan is subject to various terms, covenants and conditions. Specifically, the Bank should ensure that its capital adequacy ratio shall not at any time be less than the Basel minimum capital requirements as implemented in the U.A.E. under the guidelines of the Central Bank.

14 OTHER LIABILITIES

	2008	*2007*
	AED 000	*AED 000*
Interest payable	**466,284**	460,651
Accrued expenses	**177,592**	127,715
Provisions for staff benefits and other expenses	**190,913**	123,113
Accounts payable and sundry creditors	**883,215**	435,140
Advances received on sale of properties under development	**929,864**	119,059
Payable in respect of acquisition of investment properties	**504,241**	800,000
Negative fair value of derivatives (Note 28)	**653,346**	168,431
Others	**36,367**	15,726
Total	**3,841,822**	2,249,835

The movement in provisions was as follows:

	2008	*2007*
	AED 000	*AED 000*
At 1 January	**123,113**	85,198
Arising during the year	**194,246**	106,880
Utilised	**(126,446)**	(68,965)
At 31 December	**190,913**	123,113

15 SHARE CAPITAL

	Issued and fully paid	
	2008	*2007*
	AED 000	*AED 000*
Ordinary shares of AED 1 each	**1,375,000**	1,250,000

In the General Assembly Meeting held on 25 February 2008, the shareholders resolved to increase the share capital of the Bank to AED 1,375 million and approved a bonus share dividend of AED 125,000 thousand (Note 17).

16 TREASURY SHARES

During the year, the Bank received an approval from the Securities & Commodities Authority of the United Arab Emirates to buy back up to 137.5 million of its own shares. A total of 5 million shares were acquired as of 31 December 2008 and additional 6 million shares were acquired subsequent to that date.

17 APPROPRIATIONS

Legal reserve

In accordance with the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended) and the Articles of Association of the Bank, 10% of profit for the year of the Bank shall be transferred to the legal reserve until it reaches 50% of the nominal value of the paid up share capital. As of 31 December 2008, the legal reserve exceeded 50% of the share capital and accordingly, the Board of Directors has proposed that no transfers from the net profit are made to the legal reserve. The legal reserve is not available for distribution.

Special reserve

As required by Article 82 of Union Law No. 10 of 1980, 10% of the profit for the year has been transferred to the special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The special reserve is not available for distribution.

General reserve

Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

No transfers are proposed by the Board of Directors (2007: AED nil) from the profit for the year to the general reserve.

Dividends

	2008	*2007*
	AED 000	*AED 000*
Cash dividends proposed in respect of 2008: 35 fils (2007: Declared 20 fils) based on outstanding share capital, other than treasury shares	**477,400**	250,000
Bonus share dividend proposed in respect of 2008: nil (2007: Declared 1 share every 10 shares held)	**-**	125,000
Dividend on ordinary shares paid during the year	**233,645**	868,490

18 MANDATORY CONVERTIBLE BONDS

Following approval of the Extraordinary General Assembly meeting held on 25 February 2008, the Board of Directors resolved on 21 July 2008 to issue non-redeemable mandatory convertible bonds (the "Bonds") amounting to AED 3.6 billion. The Bonds are subject amongst other terms, to the following:

- The Bonds have a par value of AED 10 million each;
- These Bonds are subject to compulsory conversion into shares after 3 years from the date of their issuance, unless converted earlier;
- These Bonds would automatically be converted at a conversion price of AED 28.8 at the conversion date;
- The bonds holders are entitled to interest at the rate of 3 month EBOR plus 1% which is subject to the approval and declaration of the Board of Directors at each interest due date.

During July 2008, the Bank signed agreements with the bondholders to issue the Bonds with a face value of AED 3.6 billion and collected the related bond proceeds. In January 2009, the Board of Directors resolved to pay the interest of AED 83,720 thousand in respect of the first six months period.

19 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2008	*2007*
	AED 000	*AED 000*
Interest income		
Loans and advances	**4,182,260**	2,616,321
Deposits with banks	**189,389**	359,895
Income related to subscriptions to initial public offerings (IPOs)	**23,392**	31,831
Investment securities		
- Available for sale	**2,210**	9,356
- Held to maturity	**258,166**	453,939
Notional interest on impaired loans and advances (Note 4)	**5,870**	7,812
Total	**4,661,287**	3,479,154
Income from Islamic financing	**295,898**	123,697
Interest income and income from Islamic financing	**4,957,185**	3,602,851

20 INTEREST EXPENSE AND ISLAMIC FINANCING EXPENSE

	2008	*2007*
	AED 000	*AED 000*
Interest expense		
Customers' deposits	**1,837,927**	1,857,106
Interest expense related to IPO-related deposits	**2,624**	9,003
Bank deposits	**305,367**	184,915
Medium-term loans	**222,317**	186,014
Total	**2,368,235**	2,237,038
Islamic financing expense	**8,450**	34,501
Interest expense and Islamic financing expense	**2,376,685**	2,271,539

21 OTHER OPERATING INCOME

	2008	2007
	AED 000	AED 000
Investment income:		
Gains on disposal of available for sale investments	**21,755**	94,522
Gains on disposal of investments carried at fair value through income statement	**23,332**	46,480
Change in fair value of investments carried at fair value through income statement	**(307,521)**	115,426
Other investment income	**9,690**	23,716
Total investment (loss) income	**(252,744)**	280,144
Commission income	**273,088**	117,524
Fee income	**610,447**	249,891
Brokerage and fund management fee income	**27,072**	2,505
Foreign exchange income	**104,058**	51,288
Derivative income	**214,745**	67,975
Fees and commissions on credit cards	**203,108**	91,601
Government grant (Note 7)	**-**	50,852
Gain on revaluation of investment properties (Note 7)	**288,437**	426,998
Gain on sale of investment properties (Note 7)	**240,119**	-
Gain on sale of property and equipment	**98,684**	10
Rental income (Note 7)	**115,635**	44,675
Other income	**38,357**	38,318
Total	**1,961,006**	1,421,781

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
	AED 000	AED 000
Staff costs	**559,502**	330,190
Depreciation	**38,810**	25,460
Other general and administrative expenses	**536,584**	255,051
Total	**1,134,896**	610,701

	2008	2007
Number of employees	**989**	834

23 IMPAIRED ASSETS CHARGE

	2008	2007
	AED 000	AED 000
Provision for impaired loans and advances (Note 4)	**592,482**	214,253
Recoveries (Note 4)	**(26,132)**	(7,307)
	566,350	206,946

24 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts for the year are calculated by dividing profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and share data used in the earnings per share computations:

	2008	*2007*
Profit for the year attributable to ordinary equity holders (AED 000)	**3,005,250**	2,008,180
Weighted average number of ordinary shares in issue (000's)	**1,430,841**	1,375,000
Basic and diluted earnings per share (AED)	**2.10**	1.46

Shares related to mandatory convertible bonds are included in the weighted average number of ordinary shares from the date the related bonds were issued. Treasury shares are excluded from the date they were purchased.

As of 31 December 2008 and 31 December 2007, the Bank has not issued any instrument which would have a dilutive impact on earnings per share when converted or exercised.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2008 AED 000	*2007 AED 000*
Cash and balances with U.A.E. Central Bank	**5,005,045**	8,977,874
Due from banks and financial institutions	**2,837,412**	4,184,886
	7,842,457	13,162,760
Less: Balances with U.A.E. Central Bank maturing after three months of placement	**2,700,000**	1,835,000
Less: Due from banks and financial institutions maturing after three months of placement	**-**	524,999
Cash and cash equivalents	**5,142,457**	10,802,761

Due from banks and financial institutions include an amount of AED nil (2007: AED 694,335 thousand) being amounts lent against the purchase of debt securities under reverse repurchase agreements with arrangements to resell them at a fixed future date.

25 CASH AND CASH EQUIVALENTS *(continued)*

Geographic analysis of due from banks and financial institutions is as follows:

	2008	*2007*
	AED 000	*AED 000*
Within U.A.E.	**1,683,943**	1,246,602
Outside U.A.E.	**1,153,469**	2,938,284
	2,837,412	4,184,886

26 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising directors, major shareholders, key management and their related concerns, at commercial interest and commission rates. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. All loans and advances to related parties are performing advances and are free of any provision for impaired loans and advances.

The following transactions have been entered into with related parties:

	2008	*2007*
	AED 000	*AED 000*
Board members, key management personnel		
Loans and advances to customers	**12,593,906**	6,433,435
Customers' deposits	**2,945,460**	3,216,997
Commitments and contingent liabilities	**5,401,661**	4,519,397
Interest and commission income	**584,734**	377,974
Interest expense	**142,754**	102,379
Associates		
Loans and advances to customers	**600,000**	650,000
Customers' deposits	**671,643**	486,015
Commitments and contingent liabilities	**771,568**	657,803
Interest and commission income	**25,570**	10,502
Interest expense and Islamic financing expense	**1,594**	23,917
Compensation of key management personnel:		
Short-term employee benefits	**57,964**	41,739
Post-employment benefits	**10,041**	1,961

In addition to amounts disclosed above, Board of Directors remuneration amounting to AED 60,000 thousand (2007: AED 50,000 thousand) has been included in the consolidated statement of changes in equity and is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

27 COMMITMENTS AND CONTINGENT LIABILITIES

The Bank has the following commitments and contingent liabilities at 31 December:

	2008	*2007*
	AED 000	*AED 000*
Contingent liabilities:		
Acceptances	**1,731,160**	688,569
Letters of credit	**13,547,741**	9,986,789
Guarantees	**33,348,390**	15,577,160
	48,627,291	26,252,518
Commitments:		
Commitments to extend credit maturing within one year	**12,643,378**	9,497,781
Commitments for future capital expenditure	**5,525,779**	1,189,579
Commitments for future equity investments	**-**	367,300
Commitments for future private equity investments	**643,881**	473,033
	18,813,038	11,527,693
Total commitments and contingent liabilities	**67,440,329**	37,780,211

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

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers in the event of a specific act such as the export or import of goods or upon the failure of the customer to perform under the terms of a contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

Commitments to extend credit represent contractual irrevocable commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

28 DERIVATIVES

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

	Positive fair value AED 000	Negative fair value AED 000	Notional amount Total AED 000	Notional amounts by term to maturity Within 3 months AED 000	3-12 months AED 000	1-5 years AED 000	More than 5 years AED 000
At 31 December 2008							
Derivatives held for trading:							
Forward foreign exchange contracts	**91,026**	**127,130**	**10,630,253**	**5,713,272**	**4,916,981**	**-**	**-**
Interest rate swaps, caps and collars	**150,602**	**126,085**	**26,199,225**	**1,377,782**	**-**	**3,893,952**	**20,927,491**
Credit default swaps	**-**	**-**	**298,460**	**-**	**125,000**	**173,460**	**-**
Cross currency interest rate swaps	**111,476**	**111,476**	**840,255**	**-**	**-**	**840,255**	**-**
Equity swaps	**168,612**	**168,612**	**912,229**	**26,923**	**363,555**	**521,751**	**-**
Options	**54,211**	**54,211**	**316,424**	**26,674**	**289,750**	**-**	**-**
Futures	**13,286**	**945**	**272,643**	**272,643**	**-**	**-**	**-**
	589,213	**588,459**	**39,469,489**	**7,417,294**	**5,695,286**	**5,429,418**	**20,927,491**
Derivatives held as a fair value hedge:							
Interest rate swaps	**5,842**	**64,887**	**815,495**	**180,739**	**34,756**	**200,000**	**400,000**
Total	**595,055**	**653,346**	**40,284,984**	**7,598,033**	**5,730,042**	**5,629,418**	**21,327,491**
At 31 December 2007							
Derivatives held for trading:							
Forward foreign exchange contracts	34,740	61,672	4,845,503	3,838,494	1,007,009	-	-
Interest rate swaps	77,961	87,714	14,408,135	-	4,004	2,252,378	12,151,753
Credit default swaps	-	1,741	225,000	-	-	225,000	-
Cross currency interest rate swaps	16,349	16,349	749,183	-	-	749,183	-
	129,050	167,476	20,227,821	3,838,494	1,011,013	3,226,561	12,151,753
Derivatives held as a fair value hedge:							
Interest rate swaps	4,246	955	548,571	-	-	148,571	400,000
Total	133,296	168,431	20,776,392	3,838,494	1,011,013	3,375,132	12,551,753

Derivative product types

In the ordinary course of business the Bank enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into, include forwards, options and swaps, futures and swaptions.

28 DERIVATIVES *(continued)*

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

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

Credit default swaps transfer the credit exposure of debt securities between parties. The buyer of a credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. Accordingly, the risk of default is transferred from the holder of the debt security to the seller of the swap.

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

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held for trading purposes
Most of the Bank's derivative trading activities relate to offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks and manage their market positions with the expectation of making profit from favourable movements in prices or rates.

Derivatives held for hedging purposes
As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to interest rate risks.

The total loss on interest rate swaps held as fair value hedges amounted to AED 62,336 thousand (2007: AED 13,651 thousand). A corresponding gain has been adjusted against the carrying value of the related hedged asset.

29 SEGMENTAL INFORMATION

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

Primary segment information

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

Corporate banking - Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers and high net worth individuals.

Treasury, including investment operations - Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of government securities and placements and deposits with other banks.

Retail banking - Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and funds transfer facilities.

Real estate activities - Principally the acquisition, leasing, brokerage, management and resale of properties carried out through its subsidiaries and associate companies.

Other operations comprising mainly the Head Office including unallocated costs, subsidiaries and associates other than above categories.

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

	Corporate banking AED 000	*Treasury AED 000*	*Retail banking AED 000*	*Real estate AED 000*	*Other operations AED 000*	*Total AED 000*
Assets	**59,220,532**	**18,483,131**	**19,481,367**	**5,830,671**	**4,506,007**	**107,521,708**
Liabilities	**67,526,484**	**10,872,417**	**8,626,025**	**1,502,580**	**2,374,592**	**90,902,098**
Operating income excluding associates	**1,478,822**	**436,901**	**1,865,725**	**755,534**	**4,524**	**4,541,506**
Share of profits of associates	**-**	**-**	**-**	**116,790**	**40,153**	**156,943**
Impaired assets charge	**(275,114)**	**(6,336)**	**(284,900)**	**-**	**-**	**(566,350)**
Profit attributable to equity holders of the Bank	**953,672**	**376,265**	**1,044,943**	**863,209**	**(232,839)**	**3,005,250**
Other segment information						
Investment in associates	**-**	**-**	**-**	**272,665**	**280,365**	**553,030**
Capital expenditure	**-**	**-**	**-**	**2,269,359**	**343,551**	**2,612,910**
Depreciation	**-**	**-**	**-**	**104**	**38,706**	**38,810**

29 SEGMENTAL INFORMATION *(continued)*

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

	Corporate banking AED 000	*Treasury AED 000*	*Retail banking AED 000*	*Real estate AED 000*	*Other operations AED 000*	*Total AED 000*
Assets	36,452,728	23,809,887	7,419,599	3,887,704	1,627,627	73,197,545
Liabilities	45,953,055	8,669,129	6,205,092	987,299	1,262,536	63,077,111
Operating income excluding associates	660,898	824,364	720,746	543,239	3,846	2,753,093
Share of profits of associates	-	-	-	41,849	30,864	72,713
Impaired assets charge	(86,951)	-	(119,995)	-	-	(206,946)
Profit attributable to equity holders of the Bank	417,669	789,457	353,826	577,245	(130,017)	2,008,180
Other segment information						
Investment in associates	-	-	-	161,992	164,391	326,383
Capital expenditure	-	-	-	2,604,302	160,225	2,764,527
Depreciation	-	-	-	-	25,460	25,460

Secondary segment information

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

30 RISK MANAGEMENT

30.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management structure

In line with the best practice followed in world-class financial institutions, the overall risk management responsibility lies with the Board of Directors of the Bank under which there is a Risk and Compliance Committee (RCMC) comprising of three board members and the Chief Risk Officer who take the responsibility for identifying and controlling the risks.

Board of Directors

The overall risk management responsibility lies with the Board of Directors of the Bank. They provide the direction, strategy and oversee all the activities through various committees.

Audit Committee

The Audit Committee comprises three independent members who represent the Board of Directors of the Bank. The committee has the overall responsibility of assessing the internal audit findings, directing implementation of audit recommendations and overseeing the internal audit activities undertaken within the internal control environment and regulatory compliance framework of the Bank. Duties and responsibilities of the Audit Committee are governed by a formally approved Audit Committee Charter which is in line with best practice and control governance.

Risk & Compliance Management Committee (RCMC)

The objective of RCMC is to assist the Board of Directors in fulfilling its corporate governance and oversight responsibilities by establishing, monitoring and reviewing internal control, compliance and risk management processes and systems within the Bank.

Asset Liability Committee

Asset Liability Management (ALM) process is an act of planning, acquiring, and directing the flow of funds through an organisation. The ultimate objective of this process is to generate adequate and stable earnings and to steadily build an organisation's equity over time, while taking measured business risks. The bank has a well defined ALM policy duly describing the objective, role and function of Asset Liability Committee (ALCO). This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions to manage balance sheet related risks. The ALCO consisting of the bank's senior management including the Managing Director and Chief Executive Officer (CEO) meets at least once a month.

Credit Committee

All the business proposals of clients are approved through a committee empowered by the Executive Committee of the bank through the CEO. The Bank has a Credit Committee which approves all the funded and non-funded limits. The committee consists of senior management personnel including the CEO. The approval process and the authorities vested with the committee members are well defined in a credit policy manual. The policy manual enumerates various procedures to be followed by a relationship manager in bringing a relationship to the Bank. Various aspects of the credit approval process have been defined in the policy which enables efficient approval of the proposals.

30 RISK MANAGEMENT *(continued)*

30.1 Introduction *(continued)*

Investment and Management Committee
Investment and Management Committee (IMCO) is a management level committee with representations from investment, financial control and risk management functions. This committee is entrusted with the responsibility of approving limits for investments and in approving individual investment proposals within those limits. It ensures that the investment decisions conform to the guidelines laid down in the investment policy of the Bank and are within overall limits prescribed by the Board of Directors. The committee meets to discuss new proposals for investments as well as analyse the performance of existing investments. The committee also sets guidelines for investments.

Risk Management Unit (RMU)
RMU is an independent unit reporting to the CEO and the RCMC. RMU is responsible for identifying, measuring, monitoring and controlling the risks arising out of various activities in the Bank by the different business units. The process is through partnering with the units in identifying and addressing the risks by setting limits and reporting on the utilisation thereof.

RMU also monitors compliance with the regulatory procedures and anti-money laundering monitoring procedures of the Bank.

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

Internal Audit
Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee. The Head of Internal Audit has direct reporting lines to the Audit Committee in securing his independence and objectivity in all audit engagements undertaken within the Bank.

Risk measurement and reporting systems
Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the RCMC, and the head of each business division. The report includes aggregate credit exposure, limit exceptions and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for credit losses on a quarterly basis. RCMC receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

30 RISK MANAGEMENT *(continued)*

30.1 Introduction *(continued)*

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the RMU. The effectiveness of all the hedge relationships is monitored by the RMU monthly. In situations of ineffectiveness, the Bank will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Bank actively uses collateral to reduce its credit risks.

Risk concentration

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

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific industries or businesses.

Details of the composition of the loans and advances portfolio are provided in Note 4. Information on credit risk relating to investments is provided in Note 5.

30.2 Credit risk

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

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

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

30 RISK MANAGEMENT *(continued)*

30.2 Credit risk *(continued)*

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

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

	Notes	***Gross maximum exposure 2008 AED 000***	*Gross maximum exposure 2007 AED 000*
Balances with U.A.E. Central Bank	3	**4,767,198**	8,881,357
Due from banks and financial institutions	25	**2,837,412**	4,184,886
Loans and advances	4	**79,362,996**	44,409,268
Non-trading investments	5	**7,957,960**	6,567,780
Other assets	8	**3,592,975**	677,920
Total		**98,518,541**	64,721,211
Contingent liabilities	27	**48,627,291**	26,252,518
Commitments	27	**12,643,378**	9,497,781
Total		**61,270,669**	35,750,299
Total credit risk exposure		**159,789,210**	100,471,510

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The funded and non funded credit exposure to the top 5 borrowers as of 31 December 2008 was AED 16,362,564 thousand (2007: 8,749,066 thousand) before taking account of collateral or other credit enhancements and AED 7,525,611 thousand (2007: AED 6,546,544 thousand) net of such protection.

30 RISK MANAGEMENT *(continued)*

30.2 Credit risk *(continued)*

Credit risk concentration *(continued)*

The distribution of the Bank's financial assets by geographic region and industry sector is as follows:

	2008 AED 000	*2007 AED 000*
Geographic region		
U.A.E.	**88,201,799**	55,124,317
Other Arab countries	**1,313,847**	236,257
Europe	**4,200,910**	5,461,825
USA	**4,313,673**	3,728,305
Rest of the world	**488,312**	170,507
Financial assets subject to credit risk	**98,518,541**	64,721,211
Other assets	**9,003,167**	8,476,334
Total assets	**107,521,708**	73,197,545
Industry sector		
Commercial and business	**57,881,595**	33,661,925
Personal	**19,481,367**	7,419,599
Government	**11,793,197**	9,288,900
Banks and financial institutions	**7,551,756**	13,843,040
Others	**1,810,626**	507,747
Financial assets subject to credit risk	**98,518,541**	64,721,211
Other assets	**9,003,167**	8,476,334
Total assets	**107,521,708**	73,197,545

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory, trade receivables and securities,
- For personal lending, assignment of salaries in favour of the Bank.

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

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

The Bank also makes use of master netting agreements with counterparties.

30 RISK MANAGEMENT *(continued)*

30.2 Credit risk *(continued)*

Credit quality per class of financial assets

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

	Neither past due nor impaired				
	Pass grade 2008 AED 000	***Watch grade 2008 AED 000***	***Sub-standard grade 2008 AED 000***	***Past due or individually impaired 2008 AED 000***	***Total 2008 AED 000***
Due from banks and financial institutions	2,837,412	-	-	-	2,837,412
Loans and advances	76,995,137	826,538	1,498	2,680,614	80,503,787
Non-trading investments	7,957,960	-	-	-	7,957,960
Total	87,790,509	826,538	1,498	2,680,614	91,299,159

	Neither past due nor impaired				
	Pass grade 2007 AED 000	*Watch grade 2007 AED 000*	*Sub-standard grade 2007 AED 000*	*Past due or individually impaired 2007 AED 000*	*Total 2007 AED 000*
Due from banks and financial institutions	4,184,886	-	-	-	4,184,886
Loans and advances	43,479,192	76,617	23,521	1,483,728	45,063,058
Non-trading investments	6,567,780	-	-	-	6,567,780
Total	54,231,858	76,617	23,521	1,483,728	55,815,724

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

30 RISK MANAGEMENT *(continued)*

30.2 Credit risk *(continued)*

Aging analysis of past due but not impaired loans

	Less than 30 days 2008 AED 000	*31 to 60 days 2008 AED 000*	*61 to 90 days 2008 AED 000*	*More than 91 days 2008 AED 000*	*Total 2008 AED 000*
Past due but not impaired loans and advances	995,827	329,886	203,699	661,326	2,190,738
Impaired loans (Note 4)					489,876
Total past due and impaired loans					2,680,614

	Less than 30 days 2007 AED 000	31 to 60 days 2007 AED 000	61 to 90 days 2007 AED 000	More than 91 days 2007 AED 000	Total 2007 AED 000
Past due but not impaired loans and advances	464,486	234,940	106,486	224,982	1,030,894
Impaired loans (Note 4)					452,834
Total past due and impaired loans					1,483,728

See Note 4 for more detailed information with respect to the provision for impairment losses on loans and advances.

Renegotiated loans

The total carrying amount of loans and advances whose terms have been renegotiated as of 31 December 2008 amounted to AED 836,329 thousand (2007: AED 209,325 thousand).

30 RISK MANAGEMENT *(continued)*

30.3 Liquidity risk and funding management

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities at 31 December 2008 based on contractual maturities.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with U.A.E. Central Bank	5,005,045	-	-	-	5,005,045
Due from banks and financial institutions	2,837,412	-	-	-	2,837,412
Loans and advances, net	30,539,831	9,678,325	18,084,996	21,059,844	79,362,996
Non-trading investments	3,660,278	643,724	811,977	4,863,597	9,979,576
Other assets	3,780,048	-	-	-	3,780,048
Financial assets	**45,822,614**	**10,322,049**	**18,896,973**	**25,923,441**	**100,965,077**
Non-financial assets					**6,556,631**
Total assets					**107,521,708**
LIABILITIES					
Due to banks	3,012,642	100,000	-	-	3,112,642
Due to U.A.E. Central Bank	4,200,000	-	-	-	4,200,000
Customers' deposits	55,928,914	5,943,977	4,522,136	7,567,632	73,962,659
Medium-term loans	2,754,750	-	3,030,225	-	5,784,975
Other liabilities	3,841,822	-	-	-	3,841,822
Total liabilities	**69,738,128**	**6,043,977**	**7,552,361**	**7,567,632**	**90,902,098**

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

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
ASSETS					
Cash and balances with U.A.E. Central Bank	8,092,874	885,000	-	-	8,977,874
Due from banks and financial institutions	4,184,886	-	-	-	4,184,886
Loans and advances, net	15,254,366	6,396,187	9,376,853	13,381,862	44,409,268
Non-trading investments	1,488,442	772,872	2,736,023	5,112,849	10,110,186
Other assets	740,813	-	-	-	740,813
Financial assets	29,761,381	8,054,059	12,112,876	18,494,711	68,423,027
Non-financial assets					4,774,518
Total assets					73,197,545
LIABILITIES					
Due to banks	2,306,232	480,000	-	-	2,786,232
Customers' deposits	42,890,268	4,087,258	12,750	5,265,793	52,256,069
Medium-term loans	-	-	5,784,975	-	5,784,975
Other liabilities	1,602,249	646,316	1,270	-	2,249,835
Total liabilities	46,798,749	5,213,574	5,798,995	5,265,793	63,077,111

30 RISK MANAGEMENT *(continued)*

30.3 Liquidity risk and funding management *(continued)*

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2008 based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and interest payable to maturity.

	Less than 3 months AED 000	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2008					
LIABILITIES					
Due to banks	3,013,510	100,776	-	-	3,114,286
Due to U.A.E. Central bank	4,201,438	-	-	-	4,201,438
Customers' deposits	56,442,393	6,163,349	5,025,449	8,480,101	76,111,292
Medium-term loans	2,773,285	25,925	3,181,386	-	5,980,596
Other liabilities	3,841,822	-	-	-	3,841,822
Total liabilities	70,272,448	6,290,050	8,206,835	8,480,101	93,249,434
2007					
LIABILITIES					
Due to banks	2,316,447	488,203	-	-	2,804,650
Customers' deposits	43,105,943	4,300,322	116,758	5,265,793	52,788,816
Medium-term loans	66,159	168,872	6,275,114	-	6,510,145
Other liabilities	1,602,249	646,316	1,270	-	2,249,835
Total liabilities	47,090,798	5,603,713	6,393,142	5,265,793	64,353,446

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

	Less than 3 months AED 000	*3 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
2008					
Contingent liabilities	33,940,227	10,718,719	3,968,345	-	48,627,291
Commitments	10,285,865	4,329,968	4,197,205	-	18,813,038
Total	**44,226,092**	**15,048,687**	**8,165,550**	**-**	**67,440,329**
2007					
Contingent liabilities	18,931,689	4,577,059	2,743,770	-	26,252,518
Commitments	9,711,063	1,149,305	667,325	-	11,527,693
Total	28,642,752	5,726,364	3,411,095	-	37,780,211

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

30 RISK MANAGEMENT *(continued)*

30.4 Market risk

Market risk is the risk that the fair value and future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Effective hedging strategies are in place to ensure that interest rate fluctuations do not cause significant changes in future cash flows or fair value of financial instruments.

The following table estimates the sensitivity to a reasonable possible change in interest rates on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes (whether increase or decrease) in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities, denominated in various currencies, held at 31 December 2008, with all other variables held constant.

Currency	AED	USD	EUR	GBP	Others
Assumed change in interest rates	0.50%	0.50%	0.50%	0.50%	0.50%
Impact on net interest income from increase in interest rates:					
2008 (AED 000)	76,779	(10,116)	3,688	(151)	405
2007 (AED 000)	(29,570)	(35,561)	5,023	326	623
Impact on net interest income from decrease in interest rates:					
2008 (AED 000)	(76,779)	10,116	(3,688)	151	(405)
2007 (AED 000)	29,570	35,561	(5,023)	(326)	(623)

(Amounts in brackets reflect decreases in net interest income.)

The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, for the effects of the assumed changes in interest rates. At 31 December 2008 and 2007, the effect of the assumed changes in interest rates on equity is insignificant.

30 RISK MANAGEMENT *(continued)*

30.4 Market risk *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2008 on its monetary assets and liabilities and its forecast cash flows. The analysis estimates the effect of a reasonably possible movement of the currency rate, with all other variables held constant on the consolidated income statement.

Currency	USD	EUR	GBP	Libyan Dinar
Assumed change in exchange rates	1%	1%	1%	1%
Impact on operating income from increase in exchange rates:				
2008 (AED 000)	64,183	(133)	(40)	(3,824)
2007 (AED 000)	(5,435)	(143)	(40)	-
Impact on operating income from decrease in exchange rates:				
2008 (AED 000)	(64,183)	133	40	3,824
2007 (AED 000)	5,435	143	40	-

(Amounts in brackets reflect decreases in operating income.)

At 31 December 2008 and 2007, the effect of the assumed changes in exchange rates on equity is insignificant.

Equity price risk

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

The following table estimates the sensitivity to a possible change in equity markets on the Bank's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	*Impact on net income 2008 AED 000*	*Impact on net income 2007 AED 000*
Investments carried at fair value through the income statement			
Reference equity benchmarks:			
Abu Dhabi Securities Market Index	5%	**11,068**	**9,753**
Dubai Financial Market Index	5%	**954**	**1,983**
Net asset value of managed funds	5%	**26,025**	**37,725**

30 RISK MANAGEMENT *(continued)*

30.4 Market risk *(continued)*

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

	Assumed level of change %	*Impact on equity 2008 AED 000*	*Impact on equity 2007 AED 000*
Available for sale investments			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**-**	1,178
Other equity exchanges	5%	**287**	72,208
Net asset value of private equity funds	5%	**56,740**	43,239

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The effect on profit for one year, assuming 10% of repayable financial instruments were to prepay at the beginning of the year, with all other variables held constant, is estimated at AED 334,396 thousand (2007: AED 106,229 thousand).

Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, systems failure, human error, fraud or external events. When required controls fail, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. While the Bank cannot expect to eliminate all operational risks, through a control framework and by continuous monitoring and responding to potential risks, the Bank is able to manage these risks. Controls include effective segregation of duties, appropriate access, authorisation and reconciliation procedures, staff training and robust assessment processes.

The processes are reviewed by risk management and internal audit on an ongoing basis.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

While the Bank prepares its financial statements under the historical cost convention modified for measurement to fair value of investment securities (other than held to maturity investments and certain unquoted investments), investment properties and derivative financial instruments, in the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities, other than the Government deposit referred to in Note 12, that are not carried at fair value in the financial statements are not materially different, since assets and liabilities are either short term in nature or in the case of deposits and performing loans and advances, frequently repriced. For impaired loans and advances, expected cash flows, including anticipated realisation of collateral, were discounted using the original interest rates, considering the time of collection and a provision for the uncertainty of the cash flows.

The carrying value of unquoted investments stated at cost and fair value of held to maturity investments are disclosed in Note 5. The fair value of the Government deposit cannot be reliably estimated as this is dependent on the amounts and timing of future loan disbursement under the housing loans scheme. Details of the Government deposit are disclosed in Note 12.

32 CAPITAL ADEQUACY

Capital management

The primary objective of the Bank's capital management is to ensure that the Bank maintains healthy capital ratios in order to support its business, to maximise shareholders' value and to ensure that the Bank complies with externally imposed capital requirements.

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

The capital adequacy ratio calculated in accordance with the guidelines of the U.A.E. Central Bank is as follows:

	2008	*2007*
	AED 000	*AED 000*
Total capital base	**15,550,279**	9,630,149
Risk weighted assets:		
Balance sheet items	**86,898,553**	53,686,932
Off-balance sheet exposures	**23,451,404**	10,462,146
Total risk weighted assets	**110,349,957**	64,149,078
Total assets ratio (%)	**14.1%**	15.0%