

**Arab Emirates Investment Bank P.J.S.C.**

**FINANCIAL STATEMENTS AND REPORT OF  
THE BOARD OF DIRECTORS**

**31 DECEMBER 2007**

**REPORT OF THE BOARD OF DIRECTORS**  
**For the year ended 31 December 2007**

The directors have pleasure in placing before the shareholders the Annual Report for the year ended 31 December 2007.

The bank earned a profit of AED 26,466,602 as compared to AED 35,958,943 for the previous year. Funds under management for customers decreased during the year by 1% to AED 129,322,432. Deposits from customers increased during the year by 21 % to AED 229,026,965.

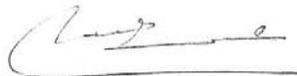
The profit for the year is proposed to be appropriated as under:

	<i>AED</i>
— Transfer to legal reserve in accordance with the requirements of article 58 (1) of the articles of association of the bank	2,646,660
— Transfer to special reserve in accordance with the requirements of article 58 (2) of the articles of association of the bank	2,646,660
— Proposed cash dividend @ 20%	8,987,520
— Directors' fees	150,000

Auditors

Ernst & Young, the auditors of the bank, being eligible, have offered themselves for re-appointment.

On behalf of the board,



Omar Abdulla Al Futtaim  
Chairman

13 February 2008

# **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB EMIRATES INVESTMENT BANK PUBLIC JOINT STOCK COMPANY**

## **Report on the Financial Statements**

We have audited the accompanying financial statements of Arab Emirates Investment Bank P.J.S.C. ('the Bank'), which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in equity and 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 applicable provisions of the articles of association of the Bank, the UAE Commercial Companies Law of 1984 (as amended) and Federal Law No.10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 management, as well as evaluating the overall presentation of the financial statements.

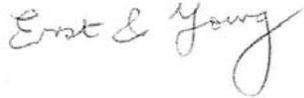
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, 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 financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), Federal Law No.10 of 1980 and the articles of association of the Bank; proper books of account have been kept by the Bank and the contents of the Directors' report relating to these 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 UAE Commercial Companies Law of 1984 (as amended), Federal Law No. 10 of 1980 or of 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.



Signed by:  
Edward B Quinlan  
Partner  
Registration No. 93

13 February 2008

Dubai, United Arab Emirates

Arab Emirates Investment Bank P.J.S.C.

**INCOME STATEMENT**

Year ended 31 December 2007

	<i>Notes</i>	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Interest income		<b>4,025,220</b>	3,437,923
Income from investments	4	<b>41,911,370</b>	48,922,701
		<u>45,936,590</u>	<u>52,360,624</u>
Interest expenses		<b>(15,318,371)</b>	(13,182,591)
		<u>30,618,219</u>	<u>39,178,033</u>
<b>NET INTEREST INCOME AND INCOME FROM INVESTMENTS</b>		<b>30,618,219</b>	39,178,033
Other income	5	<b>1,169,338</b>	2,740,425
<b>OPERATING INCOME</b>		<b>31,787,557</b>	41,918,458
		<u>31,787,557</u>	<u>41,918,458</u>
General and administrative expenses		<b>(5,041,514)</b>	(5,204,385)
Impairment loss on investments		-	(431,000)
Other expenses		<b>(279,441)</b>	(324,130)
		<u>(5,320,955)</u>	<u>(5,959,515)</u>
<b>OPERATING EXPENSES</b>		<b>(5,320,955)</b>	(5,959,515)
		<u>(5,320,955)</u>	<u>(5,959,515)</u>
<b>PROFIT FOR THE YEAR</b>	6	<b>26,466,602</b>	35,958,943
		<u>26,466,602</u>	<u>35,958,943</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	7	<b>58.56</b>	79.69
		<u>58.56</u>	<u>79.69</u>

The attached notes 1 to 25 form part of these financial statements.

# Arab Emirates Investment Bank P.J.S.C.

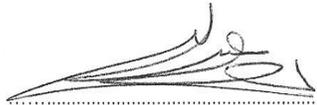
## BALANCE SHEET

At 31 December 2007

	Notes	2007 AED	2006 AED
<b>ASSETS</b>			
Cash and balances with UAE Central Bank	8	4,939,244	1,864,087
Due from banks	9	49,459,008	44,840,626
Loans and advances	10	25,450,733	40,303,780
Investments	11	512,632,852	403,056,418
Property and equipment	12	153,911	312,227
Other assets	13	12,699,521	7,952,160
<b>TOTAL ASSETS</b>		<b>605,335,269</b>	<b>498,329,298</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks		32,000,000	79,710,000
Customer deposits		229,026,965	188,535,322
Other liabilities	14	3,485,531	3,191,084
<b>TOTAL LIABILITIES</b>		<b>264,512,496</b>	<b>271,436,406</b>
<b>EQUITY</b>			
Share capital	15	44,937,600	44,935,100
Legal reserve	15	20,500,585	17,853,925
Special reserve	15	12,803,434	10,156,774
Cumulative changes in fair values	17	191,549,409	97,198,365
Retained earnings		62,044,225	50,008,463
Proposed cash dividend	16	8,987,520	6,740,265
<b>TOTAL EQUITY</b>		<b>340,822,773</b>	<b>226,892,892</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>605,335,269</b>	<b>498,329,298</b>

The financial statements were approved by the Board of Directors on 13 February 2008 and signed on its behalf by:

  
 Omar Abdulla Al Futtain  
 (Chairman)

  
 Buti Obaid Al Mulla  
 (Director)

The attached notes 1 to 25 form part of these financial statements.

Arab Emirates Investment Bank P.J.S.C.

STATEMENT OF CASH FLOWS

Year ended 31 December 2007

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
<b>OPERATING ACTIVITIES</b>		
Profit for the year	<b>26,466,602</b>	35,958,943
Adjustments for:		
Depreciation	<b>158,807</b>	215,397
Profit on sale of property and equipment	<b>(21,379)</b>	(8,031)
Impairment loss on investments	-	431,000
Change in loans and advances	<b>14,853,047</b>	(30,051,805)
Change in other assets	<b>(4,747,361)</b>	(4,827,384)
Change in investments (net)	<b>(15,225,390)</b>	(9,142,184)
Change in customers' deposits	<b>40,491,643</b>	(13,765,966)
Change in other liabilities	<b>296,947</b>	(25,847)
Net cash from (used in) operating activities	<b><u>62,272,916</u></b>	<u>(21,215,877)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<b>(22,512)</b>	(51,190)
Proceeds from sale of property and equipment	<b>43,400</b>	33,265
Net cash from (used in) investing activities	<b><u>20,888</u></b>	<u>(17,925)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	<b>(6,740,265)</b>	(6,127,860)
Directors' fees	<b>(150,000)</b>	(150,000)
Net cash used in financing activities	<b><u>(6,890,265)</u></b>	<u>(6,277,860)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>55,403,539</b>	(27,511,662)
Cash and cash equivalents at 1 January	<b>(33,005,287)</b>	(5,493,625)
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b><u><u>22,398,252</u></u></b>	<u><u>(33,005,287)</u></u>
Cash and cash equivalents comprise the following balance sheet amounts with original maturities of three months or less:		
Cash and balances with Central Bank	<b>4,939,244</b>	1,864,087
Due from banks	<b>49,459,008</b>	44,840,626
Due to banks	<b>(32,000,000)</b>	(79,710,000)
	<b><u><u>22,398,252</u></u></b>	<u><u>(33,005,287)</u></u>
<b>Operational cash flows from interest and dividend</b>		
Interest paid	<b>15,437,538</b>	13,001,811
Interest received (including from investments)	<b>8,950,056</b>	6,236,244
Dividend received	<b>11,379,907</b>	7,933,437

The attached notes 1 to 25 form part of these financial statements.

Arab Emirates Investment Bank P.J.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Retained earnings AED</i>	<i>Proposed cash dividend AED</i>	<i>Total AED</i>
At 1 January 2007	44,935,100	17,853,925	10,156,774	97,198,365	50,008,463	6,740,265	226,892,892
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	94,351,044	-	-	94,351,044
Total income and expense for the year recognised directly in equity	-	-	-	94,351,044	-	-	94,351,044
Profit for the year	-	-	-	-	26,466,602	-	26,466,602
<b>Total income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>94,351,044</b>	<b>26,466,602</b>	<b>-</b>	<b>120,817,646</b>
Cash dividends paid – 2006	-	-	-	-	-	(6,740,265)	(6,740,265)
Scrap dividend – 2005	2,500	-	-	-	-	-	2,500
Transfers	-	2,646,660	2,646,660	-	(5,293,320)	-	-
Directors' fees	-	-	-	-	(150,000)	-	(150,000)
Proposed cash dividend – 2007 (20 %)	-	-	-	-	(8,987,520)	8,987,520	-
<b>Balance at 31 December 2007</b>	<b>44,937,600</b>	<b>20,500,585</b>	<b>12,803,434</b>	<b>191,549,409</b>	<b>62,044,225</b>	<b>8,987,520</b>	<b>340,822,773</b>

The attached notes 1 to 25 form part of these financial statements.

Arab Emirates Investment Bank P.J.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Retained earnings AED</i>	<i>Proposed cash dividend AED</i>	<i>Proposed scrip dividend AED</i>	<i>Total AED</i>
At 1 January 2006	40,852,400	14,258,031	6,560,880	292,862,678	28,131,573	6,127,860	4,085,240	392,878,662
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	(195,664,313)	-	-	-	(195,664,313)
Total income and expense for the year recognised directly in equity	-	-	-	(195,664,313)	-	-	-	(195,664,313)
Profit for the year	-	-	-	-	35,958,943	-	-	35,958,943
Total income and expense for the year	-	-	-	(195,664,313)	35,958,943	-	-	(159,705,370)
Cash dividends paid - 2005	-	-	-	-	-	(6,127,860)	-	(6,127,860)
Scrip dividend – 2005	4,082,700	-	-	-	-	-	(4,082,700)	-
Transfers	-	3,595,894	3,595,894	-	(7,191,788)	-	(2,540)	(2,540)
Directors' fees	-	-	-	-	(150,000)	-	-	(150,000)
Proposed cash dividend – 2006 (15 %)	-	-	-	-	(6,740,265)	6,740,265	-	-
Balance at 31 December 2006	44,935,100	17,853,925	10,156,774	97,198,365	50,008,463	6,740,265	-	226,892,892

The attached notes 1 to 25 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**1 INCORPORATION AND ACTIVITIES**

Arab Emirates Investment Bank PJSC (the Bank) was incorporated on 17 February 1976 in Dubai by a decree of HH The Ruler of Dubai as Arab Emirates Investment Bank Limited. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. The Bank is engaged in development banking business, investment banking and investment portfolio management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

**2 BASIS OF PREPARATION**

**Accounting convention**

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and available for sale investments.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank.

**Statement of compliance**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the United Arab Emirates laws.

**Changes in accounting policies**

The accounting policies adopted are consistent with those used in the previous year except for the following:

As of 1 January 2007, the Bank adopted and applied following new IASB standards and interpretations. These changes have resulted in additional disclosures being included for the years ended 31 December 2007 and 31 December 2006.

*Amendments to IAS 1 – Capital Disclosures*

Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2006. They were required to be applied for periods beginning on or after 1 January 2007. As a result of these amendments, disclosure of information enabling evaluation of the bank's objectives, policies and processes for managing capital has been made.

*IFRS 7 Financial Instruments: Disclosures*

IFRS 7 *Financial Instruments: Disclosures* was issued by the IASB in August 2006, becoming effective for periods beginning on or after 1 January 2007. As a result of the adoption, additional disclosures of the significance of financial instruments of the bank's financial position and performance and information about exposure to risks arising from financial instruments have been made.

*IFRIC 9 Reassessment of Embedded Derivatives*

The Bank has adopted IFRIC Interpretation 9 as on 1 January 2007, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

*IFRIC 10 Interim Financial Reporting and Impairment*

The Bank has adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of an investment in either an equity instrument or a financial asset carried at cost.

Adoption of these interpretations did not have a significant impact on the Bank's financial statements for the current year.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

2 **BASIS OF PREPARATION** - continued

**IASB Standards and Interpretations issued but not adopted**

The following IASB Standards and Interpretations 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 2007, 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.

***IAS 1 Presentation of Financial Statements***

A revised IAS 1 *Presentation of Financial Statements* was issued on 6 September 2007 and becomes effective for annual periods commencing on or after 1 January 2009. The application of the standard will result in amendments to the presentation of financial statements.

***IAS 23 Borrowing Costs***

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

***IFRIC 12 Service Concession Arrangements***

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation is not expected to have any impact on the Bank.

***IFRIC 13 Customer Loyalty Programmes***

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no significant impact on the Bank's financial statements.

***IFRIC 14 IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Bank expects that this Interpretation will have no impact on the financial position or performance of the Bank.

**Significant management judgements and estimates**

**Judgements**

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from these involving estimations, which have the most significant effect on the amounts recognised on the financial statements:

*Classification of investments:*

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading or available for sale.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**2 BASIS OF PREPARATION - continued**

**Significant management judgements and estimates - continued**

**Judgements – continued**

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

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

All other investments are classified as available for sale.

*Impairment of investments*

The Bank treats available for sale 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 considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment losses on loans and advances*

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, 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 the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

*Valuation of unquoted equity investments*

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm’s length market transaction;
- current fair value of another investment that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models

The determination of cash flows and discount factors for unquoted equity investments requires significant estimations. The Bank calibrates the valuation techniques periodically and tests them for validity using either process from observable current market transactions in the same investment or from other available observable market data.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the financial statements are set out below:

**Revenue recognition**

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that 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.

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.

Other fee income and expenses are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

**Cash and cash equivalents**

Cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition including cash and balances with Central Bank, deposits with banks and other financial institutions.

**Due from banks**

Due from banks are stated at amortised cost using the effective interest rate method less allowance for impairment, if any.

**Loans and advances**

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest and similar income in the income statement and the losses arising on impairment of such loans and advances are recognised in the income statement in the provision for credit losses.

**Non – trading investments**

These are classified as “available for sale”.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

After initial recognition, these are remeasured at fair value unless fair value cannot be reliably determined in which case they are measured at cost less impairment. That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the income statement. Fair value changes, which are not part of an effective hedging relationship, are reported as a separate component of equity until the security is derecognised or the security 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 for the period.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**3 SIGNIFICANT ACCOUNTING POLICIES – continued**

**Derecognition of financial assets and financial liabilities**

*Financial assets*

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

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

*Financial liabilities*

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

**Fair values**

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

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

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm’s length market transactions, or is based on expected discounted cash flows.

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

**Property and equipment**

Property and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and equipment	4 years
Motor vehicles	4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

**Deposits**

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

**Employees’ end of service benefits**

With respect to its national employees, the Bank makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees’ salaries. The Bank’s obligations are limited to these contributions, which are expensed when due.

The Bank provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees’ length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**3 SIGNIFICANT ACCOUNTING POLICIES – continued**

**Provisions**

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

**Financial guarantees**

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in ‘Other liabilities’, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in ‘Provision for credit losses’. The premium received is recognised in the income statement in ‘Other income’ on a straight line basis over the life of the guarantee.

**Leases**

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 lease term.

**Derivatives**

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. 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.

Since the derivatives entered into do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the year.

**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 or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

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

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

**Trade and settlement date accounting**

All “regular way” purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**3 SIGNIFICANT ACCOUNTING POLICIES – continued**

**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 financial statements.

**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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

**Foreign currencies**

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the income statement.

**Segment reporting**

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

**4 INCOME FROM INVESTMENTS**

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Gain on sale of available for sale investments	25,579,476	36,338,465
Dividend income	11,379,907	8,335,337
Other income	4,951,987	4,248,899
	<u>41,911,370</u>	<u>48,922,701</u>

**5 OTHER INCOME**

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Fees and commission income	309,539	1,081,155
Portfolio management fee	924,740	1,215,190
Net foreign exchange (loss) gain	(64,941)	444,080
	<u>1,169,338</u>	<u>2,740,425</u>

**6 PROFIT FOR THE YEAR**

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
The profit for the year is stated after charging:		
Staff costs	3,373,896	3,356,638
Depreciation	158,807	215,397
Rental costs – operating leases	348,079	339,336

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**7 BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit for the year, net of directors' fees, of AED 26,316,602 (2006: AED 35,808,943) by the weighted average number of shares outstanding during the year of 449,376 of AED 100 each (2006: 449,351 shares of AED 100 each).

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

**8 CASH AND BALANCES WITH UAE CENTRAL BANK**

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Cash in hand	24,491	23,064
Balances with UAE Central Bank:		
Current account	2,965,074	53,521
Reserve requirements	1,949,679	1,787,502
	<u>4,939,244</u>	<u>1,864,087</u>

The reserve requirements are kept with UAE Central Bank in AED and USD and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

**9 DUE FROM BANKS**

Included in due from banks is a term deposit of AED 23,930,553 (2006: 23,494,400) with a counter party in UAE. This deposit has been liened to the extent of AED 19,833,685 (2006: AED 19,834,200) against facilities granted by the counter party to the Bank.

**10 LOANS AND ADVANCES**

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<b>Commercial and business:</b>		
Loans (secured)	997,914	15,361,699
Overdrafts (unsecured)	24,452,819	24,942,081
	<u>25,450,733</u>	<u>40,303,780</u>

At 31 December 2007, there were no loans individually determined to be impaired and accordingly, no provisions were considered necessary in respect of any of the loans and advances provided by the Bank (2006: Nil). In addition, 100% of the Bank's loans and advances were to customers within the UAE (2006: 100%).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**11 INVESTMENTS**

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<i>Available for sale</i>		
<i>Debt</i>		
Quoted	<b>48,187,746</b>	55,240,180
<i>Equity</i>		
Quoted	<b>407,306,890</b>	307,152,850
Unquoted	<b>57,138,216</b>	40,663,388
	<b>464,445,106</b>	347,816,238
<b>Total</b>	<b>512,632,852</b>	403,056,418

Quoted equities with a carrying value of AED 75,304,396 at 31 December 2007 (2006: AED 44,797,942) were registered in the name of certain shareholders' and third parties who have confirmed that they are holding these shares in trust on behalf of the bank.

**12 PROPERTY AND EQUIPMENT**

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2007	739,622	640,300	1,379,922
Additions	22,512	-	22,512
Disposals	-	(312,050)	(312,050)
At 31 December 2007	<b>762,134</b>	<b>328,250</b>	<b>1,090,384</b>
Depreciation:			
At 1 January 2007	602,166	465,529	1,067,695
Charge for the year	71,969	86,838	158,807
Relating to disposals	-	(290,029)	(290,029)
At 31 December 2007	<b>674,135</b>	<b>262,338</b>	<b>936,473</b>
Net carrying values:			
<b>At 31 December 2007</b>	<b>87,999</b>	<b>65,912</b>	<b>153,911</b>
At 31 December 2006	137,456	174,771	312,227

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**12 PROPERTY AND EQUIPMENT - continued**

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2006	740,317	795,550	1,535,867
Additions	51,190	-	51,190
Disposals	(51,885)	(155,250)	(207,135)
At 31 December 2006	<u>739,622</u>	<u>640,300</u>	<u>1,379,922</u>
Depreciation:			
At 1 January 2006	544,558	489,641	1,034,199
Charge for the year	84,259	131,138	215,397
Relating to disposals	(26,651)	(155,250)	(181,901)
At 31 December 2006	<u>602,166</u>	<u>465,529</u>	<u>1,067,695</u>
Net carrying values:			
At 31 December 2006	<u>137,456</u>	<u>174,771</u>	<u>312,227</u>
At 31 December 2005	<u>195,760</u>	<u>305,908</u>	<u>501,668</u>

**13 OTHER ASSETS**

	<i>2007 AED</i>	<i>2006 AED</i>
Interest receivable	<b>1,581,418</b>	2,221,390
Other receivables and prepayments	<b>11,118,103</b>	5,696,153
Positive fair value of derivatives (note 18)	-	34,617
	<u><b>12,699,521</b></u>	<u>7,952,160</u>

**14 OTHER LIABILITIES**

	<i>2007 AED</i>	<i>2006 AED</i>
Interest payable	<b>996,124</b>	1,115,291
Staff related provisions	<b>530,382</b>	409,748
Negative fair value of derivatives (note 18)	-	114,594
Other	<b>1,959,025</b>	1,551,451
	<u><b>3,485,531</b></u>	<u>3,191,084</u>

In accordance with the UAE Labour Law, the Bank provides for an end of service benefit for its expatriate employees. Movements in the liability recognised in the balance sheet in respect of end of service benefits are as follows:

	<i>2007 AED</i>	<i>2006 AED</i>
Liability as at 1 January	<b>409,748</b>	301,015
Expense recognised in the income statement	<b>120,634</b>	108,733
Liability as at 31 December	<u><b>530,382</b></u>	<u>409,748</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**15 SHARE CAPITAL AND RESERVES**

**a) Share capital**

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2006: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 449,376 ordinary shares of AED 100 each (2006: 449,351 ordinary shares of AED 100 each).

At an Extraordinary General Assembly held on 22 April 2006, the Bank's shareholders approved an increase in the issued share capital of the Bank to AED 44,937,600 by means of a scrip dividend of 40,852 shares of AED 100 each. On allotment, only 40,827 shares were issued in 2006 with the remaining 25 shares being allotted during 2007.

**b) Legal reserve**

In accordance with the Commercial Companies Law Number 8 of 1984 (as amended) and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

**c) Special reserve**

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

**16 DIVIDENDS PAID AND PROPOSED**

Cash dividends of AED 15 per share (totalling AED 6,740,265) relating to the year 2006 were declared and paid in the current year. During 2006, cash dividends of AED 15 per share (totalling AED 6,127,860) and a scrip dividend of AED 10 per share (totalling AED 4,085,240) relating to the year 2005 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 8,987,520 at AED 20 per share of AED 100 each for the year 2007. This is subject to the approval of the shareholders at the Annual General Meeting to be held during March 2008.

**17 CUMULATIVE CHANGES IN FAIR VALUES**

	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>
<i>Available for sale investments</i>		
At 1 January	<b>97,198,365</b>	292,862,678
Net unrealised gains (losses) during the year	<b>117,184,304</b>	(161,824,428)
Net realised gains reclassified to income statement on disposal	<b>(22,833,260)</b>	(33,839,885)
At 31 December	<b><u>191,549,409</u></b>	<b><u>97,198,365</u></b>

**18 DERIVATIVES**

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative 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 instruments, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Bank entered into forward foreign exchange contracts only.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk or credit risk.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**18 DERIVATIVES - continued**

**31 December 2007**

<u>amounts by term to maturity</u>	<u>Notional</u>					
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
<b>Derivatives held for trading:</b>						
Forward foreign exchange contracts	-	-	-	-	-	-

31 December 2006

	<u>Notional amounts by term to maturity</u>					
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Within 3 months</i>	<i>3-12 months</i>	<i>1-5 year</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
<b>Derivatives held for trading:</b>						
Forward foreign exchange contracts	34,617	114,594	126,250,378	3,418,252	122,832,126	-

**Derivative product types**

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

**Derivative related credit risk**

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. All of the Bank's derivative contracts are entered into with other financial institutions.

**Purpose of derivatives**

In the normal course of meeting the needs of the Bank's customers, the Bank is party to forward foreign exchange contracts. In addition, as part of its asset and liability management, the Bank uses forward foreign exchange contracts for hedging purposes in order to reduce its own exposure to currency risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as trading instruments.

**19 COMMITMENTS AND CONTINGENT LIABILITIES**

**Credit-related commitments**

Credit-related commitments include commitments to extend credit, 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, contingent upon the failure of the customers to perform under the terms of the contract.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**19 COMMITMENTS AND CONTINGENT LIABILITIES - continued**

The Bank has the following credit related commitments:

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<b><i>Contingent liabilities:</i></b>		
Letters of credit	744,442	6,369,263
Guarantees and acceptances	4,290,899	7,577,654
	<u>5,035,341</u>	<u>13,946,917</u>
<b><i>Commitments:</i></b>		
Irrevocable commitment to extend credit:		
Original term to maturity of more than one year	51,174,830	42,101,992
	<u>51,174,830</u>	<u>42,101,992</u>

In addition, the Bank has commitments totalling to AED 8,889,298 (2006: AED 15,251,805) on account of investments made in securities and limited partnership funds. The Bank has to pay as and when calls are made by the funds' managers/investee company.

**20 RELATED PARTY TRANSACTIONS**

The Bank enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

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

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<b><i>Directors, their related parties and key management personnel:</i></b>		
Loans and advances	13,025,869	13,821,282
Customers' deposits	74,065,726	69,770,360
Commitments and contingencies	39,700,105	50,678,718

The income and expenses in respect of related parties included in the financial statements are as follows:

	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
<b><i>Directors, their related parties and key management personnel:</i></b>		
Interest income	584,591	436,597
Interest expenses	4,227,256	3,403,712
Commission and fees	434,859	434,859
<b>Compensation of key management personnel:</b>		
	<i>2007</i> <i>AED</i>	<i>2006</i> <i>AED</i>
Salaries and other benefits	1,763,820	1,620,086
	<u>1,763,820</u>	<u>1,620,086</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**21 RISK MANAGEMENT**

**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.

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

***Risk management structure***

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

***Board of Directors***

The Board of Directors has the responsibility to monitor the overall risk process within the Bank. They also have the overall responsibility for the development of the risk strategy and implementing principles, framework, process and limits. It is responsible for the fraud and risk issues and manages and monitors relevant risk decisions

***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 the funding and liquidity risks of the Bank.

***Internal Audit***

Risk management processes throughout the Bank are audited annually by an outsourced 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 General Manager.

***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 is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios 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 allowance for credit losses on a quarterly basis. The Board of Directors 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.

A daily briefing is given to the General Manager and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

***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, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**21 RISK MANAGEMENT - continued**

***Excessive risk concentration***

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

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

**CREDIT RISK**

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

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

**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 contingent liabilities and commitments. The maximum exposure is shown gross, before the effect of migration through the use of master netting and collateral agreements, if any.

	<i>Notes</i>	<b><i>Gross maximum exposure 2007 AED</i></b>	<b><i>Gross maximum exposure 2006 AED</i></b>
Cash and balances with central bank (excluding cash on hand)	8	<b>4,914,753</b>	1,841,023
Due from banks	9	<b>49,459,008</b>	44,840,626
Loans and advances	10	<b>25,450,733</b>	40,303,780
Investments	11	<b>512,632,852</b>	403,056,418
Other assets	13	<b>12,699,521</b>	7,952,160
Total		<b>605,156,867</b>	497,994,007
Letters of credit	19	<b>744,442</b>	6,369,263
Guarantees and acceptances	19	<b>4,290,899</b>	7,577,654
Undrawn loans commitments	19	<b>51,174,830</b>	42,101,992
Total		<b>56,210,171</b>	56,048,909
<b>Total credit risk exposure</b>		<b>661,367,038</b>	554,042,916

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**21 RISK MANAGEMENT** – continued

**CREDIT RISK** - continued

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.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

***Risk concentrations of the maximum exposure to credit risk***

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2007 was AED 23,930,553 (2006: AED 23,494,400) before taking account of collateral or other credit enhancements and AED 23,930,553 (2006: AED 23,494,400) net of such protection.

The Bank's financial position, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2007			2006		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
United Arab Emirates	436,654,012	605,335,269	56,210,171	353,848,981	498,329,298	56,048,909
North America	65,504,403	-	-	22,946,949	-	-
Latin America	8,278,346	-	-	16,458,786	-	-
Europe	16,628,885	-	-	16,980,121	-	-
Asia Pacific	24,810,058	-	-	30,590,336	-	-
GCC & other ME	53,459,565	-	-	57,504,125	-	-
	<b>605,335,269</b>	<b>605,335,269</b>	<b>56,210,171</b>	<b>498,329,298</b>	<b>498,329,298</b>	<b>56,048,909</b>

An industry sector analysis of the Bank's financial assets (excluding cash on hand), before taking into account collateral held or other credit enhancements, is as follows:

	<i>Gross maximum exposure 2007</i>	<i>Gross maximum exposure 2006</i>
	<i>AED</i>	<i>AED</i>
Commercial and business	326,293,669	280,770,385
Banks and financial institutions	311,280,161	243,618,434
Government entities	21,361,952	21,725,001
Others	2,431,256	7,929,096
	<b>661,367,038</b>	<b>554,042,916</b>

***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 generally cash and securities.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

21 RISK MANAGEMENT- continued

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 assets for certain key balance sheet lines, based on the Bank's internal credit rating system.

	<i>Neither past due nor impaired</i>			<i>Total 2007 AED</i>
	<i>High grade 2007 AED</i>	<i>Standard grade 2007 AED</i>	<i>Sub- standard grade 2007 AED</i>	
	Due from banks	49,459,008	-	
Loans and advances	-	25,450,733	-	25,450,733
Non-trading investments	402,771,680	80,378,199	29,482,973	512,632,852
	<u>452,230,688</u>	<u>105,828,932</u>	<u>29,482,973</u>	<u>587,542,593</u>

	<i>Neither past due nor impaired</i>			<i>Total 2006 AED</i>
	<i>High grade 2006 AED</i>	<i>Standard grade 2006 AED</i>	<i>Sub- standard grade 2006 AED</i>	
	Due from banks	44,840,626	-	
Loans and advances	-	40,303,780	-	40,303,780
Non-trading investments	295,813,073	67,543,059	39,700,286	403,056,418
	<u>340,653,699</u>	<u>107,846,839</u>	<u>39,700,286</u>	<u>488,200,824</u>

As at the year end, the Bank has no amounts which are past due or individually impaired (2006: Nil).

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

	<i>Moody's equivalent grades</i>	<i>Historical default rates %</i>	<i>Total 2007 AED</i>	<i>Total 2006 AED</i>
High grade	Aaa-Aa3	-	117,133,519	79,286,844
	A-A3	-	356,039,311	263,207,878
Standard grade	Baa-Baa3	-	158,711,235	171,847,908
Sub-standard grade	Ba-B3	-	29,482,973	39,700,286
Impaired	C	-	-	-
			<u>661,367,038</u>	<u>554,042,916</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**21 RISK MANAGEMENT-** continued

**CREDIT RISK** - continued

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

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

**LIQUIDITY RISK**

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades 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 and by maintaining a healthy balance of cash and cash equivalents.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of saving deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

Arab Emirates Investment Bank P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

21 RISK MANAGEMENT- continued

LIQUIDITY RISK – continued

Maturities of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date not taking account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds, as at 31 December 2007 is as follows:

	<i>Less than 3 months AED</i>	<i>From 3 months to 6 months AED</i>	<i>From 6 months to 12 months AED</i>	<i>Sub total less than 12 months AED</i>	<i>1-5 years AED</i>	<i>Over 5 years AED</i>	<i>Sub total over 12 months AED</i>	<i>Undated AED</i>	<i>Total AED</i>
<b>ASSETS</b>									
Cash and balances with UAE Central Bank	4,939,244	-	-	4,939,244	-	-	-	-	4,939,244
Due from banks	49,459,008	-	-	49,459,008	-	-	-	-	49,459,008
Loans and advances	25,450,733	-	-	25,450,733	-	-	-	-	25,450,733
Investments	2,957,968	926,927	-	3,884,895	24,459,073	19,843,777	44,302,850	464,445,107	512,632,852
Property and equipment	-	-	-	-	-	-	-	153,911	153,911
Other assets	12,699,521	-	-	12,699,521	-	-	-	-	12,699,521
<b>Total assets</b>	<b>95,506,474</b>	<b>926,927</b>	<b>-</b>	<b>96,433,401</b>	<b>24,459,073</b>	<b>19,843,777</b>	<b>44,302,850</b>	<b>464,599,018</b>	<b>605,335,269</b>
<b>LIABILITIES AND EQUITY</b>									
Due to banks	32,000,000	-	-	32,000,000	-	-	-	-	32,000,000
Customer deposits	166,874,653	17,260,534	44,891,778	229,026,965	-	-	-	-	229,026,965
Other liabilities	2,955,149	-	-	2,955,149	-	-	-	530,382	3,485,531
Equity	-	-	-	-	-	-	-	340,822,773	340,822,773
<b>Total liabilities and equity</b>	<b>201,829,802</b>	<b>17,260,534</b>	<b>44,891,778</b>	<b>263,982,114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>341,353,155</b>	<b>605,335,269</b>
<b>Net liquidity gap</b>	<b>(106,323,328)</b>	<b>(16,333,607)</b>	<b>(44,891,778)</b>	<b>(167,548,713)</b>	<b>24,459,073</b>	<b>19,843,777</b>	<b>44,302,850</b>	<b>123,245,863</b>	

Arab Emirates Investment Bank P.J.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

21 RISK MANAGEMENT– continued

LIQUIDITY RISK - continued

The maturity profile of assets and liabilities at 31 December 2006 was as follows:

	<i>Less than 3 months AED</i>	<i>From 3 months to 6 months AED</i>	<i>From 6 months to 12 months AED</i>	<i>Sub total less than 12 months AED</i>	<i>1-5 years AED</i>	<i>Over 5 years AED</i>	<i>Sub total over 12 months AED</i>	<i>Undated AED</i>	<i>Total AED</i>
<b>ASSETS</b>									
Cash and balances									
with UAE Central Bank	1,864,087	-	-	1,864,087	-	-	-	-	1,864,087
Due from banks	44,840,626	-	-	44,840,626	-	-	-	-	44,840,626
Loans and advances	35,303,780	-	-	35,303,780	5,000,000	-	5,000,000	-	40,303,780
Investments	-	6,859,195	7,496,867	14,356,062	29,635,801	11,248,318	40,884,119	347,816,237	403,056,418
Property and equipment	-	-	-	-	-	-	-	312,227	312,227
Other assets	7,952,160	-	-	7,952,160	-	-	-	-	7,952,160
<b>Total assets</b>	<b>89,960,653</b>	<b>6,859,195</b>	<b>7,496,867</b>	<b>104,316,715</b>	<b>34,635,801</b>	<b>11,248,318</b>	<b>45,884,119</b>	<b>348,128,464</b>	<b>498,329,298</b>
<b>LIABILITIES AND EQUITY</b>									
Due to banks	79,710,000	-	-	79,710,000	-	-	-	-	79,710,000
Customer deposits	129,660,700	15,763,608	43,111,014	188,535,322	-	-	-	-	188,535,322
Other liabilities	2,781,336	-	-	2,781,336	-	-	-	409,748	3,191,084
Equity	-	-	-	-	-	-	-	226,892,892	226,892,892
<b>Total liabilities and equity</b>	<b>212,152,036</b>	<b>15,763,608</b>	<b>43,111,014</b>	<b>271,026,658</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>227,302,640</b>	<b>498,329,298</b>
<b>Net liquidity gap</b>	<b>(122,191,383)</b>	<b>(8,904,413)</b>	<b>(35,614,147)</b>	<b>(166,709,943)</b>	<b>34,635,801</b>	<b>11,248,318</b>	<b>45,884,119</b>	<b>120,825,824</b>	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**21 RISK MANAGEMENT**– continued

**LIQUIDITY RISK** - continued

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<b>Financial liabilities</b>	<b><i>On demand</i></b> <b><i>AED</i></b>	<b><i>Less than 3 months</i></b> <b><i>AED</i></b>	<b><i>3 to 12 months</i></b> <b><i>AED</i></b>	<b><i>1 to 5 years</i></b> <b><i>AED</i></b>	<b><i>Over 5 years</i></b> <b><i>AED</i></b>	<b><i>Total</i></b> <b><i>AED</i></b>
As at 31 December 2007						
Due to banks	-	32,081,276	-	-	-	32,081,276
Customer deposits	33,648,660	133,743,058	64,886,435	-	-	232,278,153
Other liabilities	3,485,531	-	-	-	-	3,485,531
<b>Total undiscounted financial liabilities</b>	<b>37,134,191</b>	<b>165,824,334</b>	<b>64,886,435</b>	<b>-</b>	<b>-</b>	<b>267,844,960</b>
As at 31 December 2006						
Due to banks	-	80,091,519	-	-	-	80,091,519
Customer deposits	13,128,248	117,112,137	61,845,793	-	-	192,086,178
Other liabilities	3,191,084	-	-	-	-	3,191,084
<b>Total undiscounted financial liabilities</b>	<b>16,319,332</b>	<b>197,203,656</b>	<b>61,845,793</b>	<b>-</b>	<b>-</b>	<b>275,368,781</b>

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

	<b><i>On demand</i></b> <b><i>AED</i></b>	<b><i>Less than 3 months</i></b> <b><i>AED</i></b>	<b><i>3 to 12 months</i></b> <b><i>AED</i></b>	<b><i>1 to 5 years</i></b> <b><i>AED</i></b>	<b><i>Over 5 years</i></b> <b><i>AED</i></b>	<b><i>Total</i></b> <b><i>AED</i></b>
<b>2007</b>						
Contingent liabilities	2,746,800	2,288,541	-	-	-	5,035,341
Commitments	51,174,830	-	-	-	-	51,174,830
<b>Total</b>	<b>53,921,630</b>	<b>2,288,541</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,210,171</b>
<b>2006</b>						
Contingent liabilities	4,588,090	9,358,827	-	-	-	13,946,917
Commitments	42,101,992	-	-	-	-	42,101,992
<b>Total</b>	<b>46,690,082</b>	<b>9,358,827</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>56,048,909</b>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

21 RISK MANAGEMENT– continued

**MARKET RISK**

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Bank's Asset and Liability Committee (ALCO).

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's equity statement. There is no material impact on the Bank's income statement.

The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets at 31 December 2007 for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	2007		2006	
	<i>Change in interest rates</i>	<i>Sensitivity of equity AED</i>	<i>Change in interest rates</i>	<i>Sensitivity of equity AED</i>
<b>Currency</b>				
<b>US Dollars</b>	<b>-10%</b>	<b>571,975</b>	<b>-10%</b>	<b>149,589</b>

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank does not have any significant net exposure for non-trading financial assets and financial liabilities denominated in other currencies.

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies 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 2007 on its non trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the equity (due to the fair value of currency sensitive non trading monetary assets which mainly relates to available for sale investments). A negative amount in the table reflects a potential net reduction in equity, while a positive amount reflects a net potential increase.

<b>Currency</b>	<i>Change in currency rate in %</i>	<i>Effect on equity 2007</i>	<i>Change in currency rate in %</i>	<i>Effect on equity 2006</i>
	<i>2007</i>	<i>AED</i>	<i>2006</i>	<i>AED</i>
US Dollars	+10	12,114,888	+10	10,997,675
Pakistan Rupees	+10	132,318	+10	758,922
Euro	+10	1,211,053	+10	1,384,933
Pound Sterling	+10	48,478	+10	(87,814)
Danish Kroner	+10	790,825	+10	4,329



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**23 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates. The fair value of the Bank's on - balance sheet financial instruments is not materially different from the carrying value at year end, since assets and liabilities are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits, frequently repriced.

Financial instruments have been classified for the purpose of IAS 39 as follows:

<b>31 December 2007</b>	<i>Designated as trading AED</i>	<i>Available for sale AED</i>	<i>Loans and receivables AED</i>	<i>Amortised cost AED</i>	<i>Total AED</i>
<b>Financial assets</b>					
Balances with Central Bank	-	-	-	4,914,753	4,914,753
Due from banks	-	-	-	49,459,008	49,459,008
Loans and advances	-	-	25,450,733	-	25,450,733
Investments	-	512,632,852	-	-	512,632,852
Others	-	-	-	12,699,521	12,699,521
	-	512,632,852	25,450,733	67,073,282	605,156,867
<b>Financial liabilities</b>					
Due to banks	-	-	-	32,000,000	32,000,000
Customer deposits	-	-	-	229,026,965	229,026,965
Others	-	-	-	3,485,531	3,485,531
	-	-	-	264,512,496	264,512,496
<b>31 December 2006</b>					
	<i>Designated as trading AED</i>	<i>Available for sale AED</i>	<i>Loans and receivables AED</i>	<i>Amortised cost AED</i>	<i>Total AED</i>
<b>Financial assets</b>					
Balances with Central Bank	-	-	-	1,841,023	1,841,023
Due from banks	-	-	-	44,840,626	44,840,626
Loans and advances	-	-	40,303,780	-	40,303,780
Investments	-	403,056,418	-	-	403,056,418
Others	-	-	-	7,917,543	7,917,543
Positive fair value of derivatives	34,617	-	-	-	34,617
	34,617	403,056,418	40,303,780	54,599,192	497,994,007
<b>Financial liabilities</b>					
Due to banks	-	-	-	79,710,000	79,710,000
Customer deposits	-	-	-	188,535,322	188,535,322
Others	-	-	-	3,076,490	3,076,490
Negative fair value of derivatives	114,594	-	-	-	114,594
	114,594	-	-	271,321,812	271,436,406

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**24 CAPITAL ADEQUACY**

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

*Capital management*

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

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

The risk asset ratio calculations, in accordance with the capital adequacy guidelines established for the global banking industry, are as follows:

**RISK WEIGHTED EXPOSURES**

	<i>Balance</i>		<i>Risk weighted equivalents</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
<b>Assets</b>				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	<b>51,751,930</b>	63,895,268	<b>24,452,819</b>	24,942,081
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	<b>540,729,908</b>	426,172,044	<b>501,162,702</b>	390,299,543
Claims at 100%	<b>12,853,431</b>	8,261,986	<b>12,853,431</b>	8,261,986
	<b>605,335,269</b>	498,329,298	<b>538,468,952</b>	423,503,610
<b>Off balance sheet items</b>				
Credit commitments and contingent items (note 19)				
Letters of credit and acceptances	<b>2,288,541</b>	9,258,827	<b>457,708</b>	1,851,765
Letters of guarantee	<b>2,746,800</b>	4,688,090	<b>2,746,800</b>	4,688,090
Derivatives (note 18)	-	126,250,378	-	1,262,504
Credit risk weighted assets and off balance sheet items			<b>541,673,460</b>	431,305,969
Market risk weighted assets and off balance sheet items			-	-
Total risk weighted assets			<b>541,673,460</b>	431,305,969
Risk asset ratio			<b>41.81%</b>	38.65%

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

**24 CAPITAL ADEQUACY – continued**

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes cumulative changes in fair values.

The bank has complied with all the requirements as set by the Central Bank of UAE.

**25 FIDUCIARY ASSETS**

	<i>2007</i>	<i>2006</i>
	<b>AED</b>	<b>AED</b>
Balance as at 31 December	<b><u>129,332,432</u></b>	<b><u>130,805,456</u></b>

The Bank manages investments on behalf of its customers. These investments are held by the Bank in a fiduciary capacity and are, accordingly, not included in these financial statements as assets of the Bank.