

**Arab Bank for Investment and  
Foreign Trade PJSC**

Financial statements

**31 December 2008**

# **Arab Bank for Investment and Foreign Trade PJSC**

## Financial statements

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## **Independent auditors' report**

The Shareholders  
Arab Bank for Investment and Foreign Trade PJSC

### **Report on the financial statements**

We have audited the accompanying financial statements of Arab Bank for Investment and Foreign Trade PJSC (the "Bank"), which comprise the balance sheet as at 31 December 2008, the income statement, the statement of cash flows and the statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Director's responsibility for the financial statements**

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

### **Auditors' responsibility**

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Articles of Association of the Bank and the UAE Federal Law No. 8 of 1984 (as amended).

### **Report on other legal and regulatory requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been maintained by the Bank and that the contents of the Board of Directors' report which relate to these financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2008 which may have had a material adverse effect on the business of the Bank or its financial position.

KPMG  
Munther Dajani  
Registration No. 268

17 January 2009

# Arab Bank for Investment and Foreign Trade PJSC

## Balance sheet

As at 31 December

		<b>2008</b>	2007
	<i>Note</i>	<b>AED'000</b>	AED'000
<b>Assets</b>			
Cash and balances with the			
Central Bank of the UAE	7	<b>291,498</b>	1,318,622
Due from banks	8	<b>3,570,490</b>	3,749,365
Trading investments	9	<b>39,688</b>	129,749
Loans and advances	10	<b>7,093,201</b>	3,978,176
Non-trading investments	11	<b>47,857</b>	51,726
Acceptances and other assets	12	<b>1,569,154</b>	748,594
Premises and equipment	13	<b>1,138,353</b>	427,903
<b>Total assets</b>		<b>13,750,241</b>	10,404,135
<b>Liabilities</b>			
Customers' deposits	14	<b>5,821,088</b>	4,334,778
Due to banks	15	<b>3,906,544</b>	2,753,044
Acceptances and other liabilities	16	<b>1,281,287</b>	677,478
<b>Total liabilities</b>		<b>11,008,919</b>	7,765,300
<b>Equity</b>			
Share capital	17	<b>1,500,000</b>	1,500,000
Statutory reserve	17	<b>251,920</b>	222,368
Special reserve	17	<b>247,331</b>	217,779
General reserve	17	<b>380,000</b>	380,000
Revaluation reserve	17	<b>8,577</b>	21,613
Retained earnings		<b>353,494</b>	297,075
<b>Total equity</b>		<b>2,741,322</b>	2,638,835
<b>Total liabilities and equity</b>		<b>13,750,241</b>	10,404,135

Dr. Abdul Hafid M.Zlitni  
*Chairman*

Sultan Saeed Mansouri  
*Vice Chairman*

Ibrahim N Lootah  
*GM and Board Member*

The notes 1 to 30 are an integral part of these financial statements.

The independent auditors' report is set out on page 1.

# Arab Bank for Investment and Foreign Trade PJSC

## Income statement

For the year ended 31 December

	Note	2008 AED'000	2007 AED'000
Interest income	18	569,605	468,767
Interest expense	19	(247,311)	(245,938)
<b>Net interest income</b>		<b>322,294</b>	222,829
Fee and commission income		171,585	104,844
Fee and commission expense		(3,259)	(1,955)
<b>Net fee and commission income</b>	20	<b>168,326</b>	102,889
Net investment (loss) / gain	21	(96,436)	14,686
Net foreign exchange gain	22	30,698	14,111
Other operating income		13,124	11,744
		(52,614)	40,541
<b>Operating income</b>		<b>438,006</b>	366,259
General, administration and other operating expenses	23	(130,349)	(96,989)
<b>Profit before net impairment charge</b>		<b>307,657</b>	269,270
Net impairment charge on financial assets	24	(12,134)	42,083
<b>Profit for the year</b>		<b>295,523</b>	311,353
<b>Basic and diluted earnings per share</b>	29	<b>3.94</b>	6.19

The notes 1 to 30 are an integral part of these financial statements.

The independent auditors' report is set out on page 1.

# Arab Bank for Investment and Foreign Trade PJSC

## Statement of cash flows

For the year ended 31 December

	Note	2008 AED'000	2007 AED'000
<b>Cash flows from operating activities</b>			
Profit for the year		295,523	311,353
<i>Adjustments for:</i>			
Depreciation	13	13,611	12,193
Impairment charge, net		38,939	60,481
Impairment charge on non-trading investments		1,699	-
Unrealised loss on valuation of trading investments		105,135	-
Write back of provision for impaired assets		-	(7,517)
Non-cash adjustment for non-trading investments		153	(407)
		<u>455,060</u>	<u>376,103</u>
Change in due from banks		(1,557,050)	(515,808)
Change in loans and advances, net		(3,153,964)	(1,519,893)
Change in acceptances and other assets		(820,560)	(141,616)
Change in customers' deposits		1,486,310	1,021,797
Change in due to banks		487,403	(272,704)
Change in acceptances and other liabilities		603,809	(61,050)
		<u>(2,498,992)</u>	<u>(1,113,171)</u>
<b>Cash flows from investing activities</b>			
Purchase of premises and equipment, net of disposals		(724,059)	(257,047)
Purchase of non-trading investments		(11,019)	-
Purchase of trading investments		(15,076)	(129,749)
		<u>(750,154)</u>	<u>(386,796)</u>
<b>Cash flows from financing activities</b>			
Capital introduced		-	740,000
Cash dividends paid	17	(180,000)	(46,200)
		<u>(180,000)</u>	<u>693,800</u>
<b>Net decrease in cash and cash equivalents</b>			
		<u>(3,429,146)</u>	<u>(806,167)</u>
Cash and cash equivalents at 1 January		<u>1,583,195</u>	<u>2,389,362</u>
<b>Cash and cash equivalents at 31 December</b>	25	<u><u>(1,845,951)</u></u>	<u><u>1,583,195</u></u>

The notes 1 to 30 are an integral part of these financial statements.

The independent auditors' report is set out on page 1.

# Arab Bank for Investment and Foreign Trade PJSC

## Statement of changes in equity

For the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	Total equity AED'000
Balance at 1 January 2007	660,000	191,233	186,644	380,000	2,780	194,192	1,614,849
Net movement in revaluation reserve	-	-	-	-	18,833	-	18,833
Profit for the year	-	-	-	-	-	311,353	311,353
Bonus shares	100,000	-	-	-	-	(100,000)	-
Capital contribution	740,000	-	-	-	-	-	740,000
Cash dividends paid ( <i>note 17</i> )	-	-	-	-	-	(46,200)	(46,200)
Transfer to reserves	-	31,135	31,135	-	-	(62,270)	-
<b>Balance at 31 December 2007</b>	<b>1,500,000</b>	<b>222,368</b>	<b>217,779</b>	<b>380,000</b>	<b>21,613</b>	<b>297,075</b>	<b>2,638,835</b>
Balance at 1 January 2008	1,500,000	222,368	217,779	380,000	21,613	297,075	2,638,835
Net movement in revaluation reserve	-	-	-	-	(13,036)	-	(13,036)
Profit for the year	-	-	-	-	-	295,523	295,523
Cash dividends paid ( <i>note 17</i> )	-	-	-	-	-	(180,000)	(180,000)
Transfer to reserves	-	29,552	29,552	-	-	(59,104)	-
<b>Balance at 31 December 2008</b>	<b>1,500,000</b>	<b>251,920</b>	<b>247,331</b>	<b>380,000</b>	<b>8,577</b>	<b>353,494</b>	<b>2,741,322</b>

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# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### **1 Legal status and principal activities**

Arab Bank for Investment and Foreign Trade PJSC (the “Bank”) was incorporated in Abu Dhabi by Union Decree No. 50 of 1976. It is registered as a Public Joint Stock Company in accordance with Federal Law No (8) of 1984 (as amended).

The Bank is engaged in commercial and retail banking activities and carries out its operations solely in the United Arab Emirates through its seven branches.

The registered office of the Bank is at P O Box 46733 Abu Dhabi, United Arab Emirates.

These financial statements were approved by the Board of Directors on 17 Jan 2009

### **2 Basis of preparation**

#### **(a) Statement of compliance**

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

#### **(b) Basis of measurement**

These financial statements are prepared under the historical cost basis except for the following:

- derivative financial instruments which are measured at fair value;
- trading investments at fair value through profit or loss which are measured at fair value; and
- non-trading investments classified as available for sale which are measured at fair value.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### **2 Basis of preparation** *(continued)*

#### **(c) Functional and presentation currency**

These financial statements are presented in United Arab Emirates Dirhams (“AED”), which is the Bank’s functional currency. Except as indicated, information presented in AED has been rounded to the nearest thousand.

#### **(d) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

### **3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all reporting periods presented in these financial statements.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (a) Financial assets and liabilities

##### (i) Recognition

The Bank initially recognises loans and advances and customers' deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the balance sheet when, the Bank becomes a party to the contractual provisions of the instrument.

All *regular way* purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. *Regular way* purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### (ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank uses the weighted average method to determine realised gains and losses on derecognition.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible (*see note 4 (b)*).

##### (iii) Designation at fair value through profit or loss

The Bank has designated financial assets at fair value through profit or loss and classified these as held for trading when:

- acquired for the purpose of reselling it in the near term; and
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

##### (iv) Designation as available for sale

The Bank has non-derivative financial assets designated as available for sale when these are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Note 6 sets out the amount of each class of financial asset or liability as per the designation.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (a) Financial assets and liabilities *(continued)*

##### (v) *Offsetting*

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

##### (vi) *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

##### (vii) *Fair value measurement*

The determination of fair values of financial assets and liabilities is based on quoted market prices or dealer quotations for financial instruments traded in active markets. Quoted bid prices are used for financial assets and quoted ask prices are used for financial liabilities. For financial instruments not traded on an active market, fair value is determined based on recent transactions or brokers' quotes. The Bank uses widely recognised valuation models for determining the fair value of derivative financial instruments such as interest and currency swaps.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (a) Financial assets and liabilities *(continued)*

##### *(viii) Identification and measurement of impairment*

An assessment is made at each balance sheet date and periodically during the year to determine whether there is any objective evidence that financial assets, not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and at a collective level. All individually significant assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar credit risk characteristics.

In assessing collective impairment the Bank assesses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on financial assets carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated cash flows discounted at the original effective interest rate. Impairment losses are recognised in the income statement and reflected in an allowance account against such financial assets. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

Impairment losses on available for sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the income statement. When a subsequent event causes the amount of impairment loss on available-for-sale debt security to decrease, the impairment loss is reversed through income statement.

Impairment losses on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### **(b) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, balances with central banks and due from banks with original maturity of three months or less from the date of placement.

Cash and cash equivalents are carried at amortised cost in the balance sheet.

#### **(c) Due from banks**

These are stated at amortised cost, less any allowance for impairment.

#### **(d) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

These are initially recognised at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method net of interest suspended and provisions for impairment.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (e) Non-trading investments

Non-trading investments are classified as available-for-sale and are initially recognised at fair value plus incremental transaction costs directly attributable to the acquisition.

After initial recognition, these investments are re-measured at fair value. Unrealised gains or losses are reported as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity, is included in the income statement for the period.

For the purpose of recognising foreign exchange gains and losses, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences are recognised in the income statement.

For unquoted equity investments where fair value cannot be reliably measured, these are carried at cost less provision for impairment in value. Upon subsequent derecognition, the profit or loss on sale is recognised in the income statement for the period.

#### (f) Premises and equipment

##### (i) *Recognition and measurement*

All items of premises and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost, and upon completion are transferred to the appropriate category of premises and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (f) Premises and equipment *(continued)*

##### (ii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of all premises and equipment. Freehold land and capital work in progress are not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings	30 years
Furniture and equipment	3 - 4 years
Motor vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

##### (iii) Impairment

The carrying amounts are reviewed at each balance sheet date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement to the extent that carrying values exceed the recoverable amounts.

#### (g) Customers' deposits and due to banks

Customers' deposits and due to banks are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

#### (h) Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (i) Fee and commission

The Bank earns fee and commission income from a diverse range of services provided to its customers. Recognition of revenue for fee and commission income depends on the purposes for which the fees are assessed and the basis of accounting for the associated financial instrument. Fee and commission income is accounted for as follows:

- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in “interest income”;
- income earned from the provision of services is recognised as revenue as the services are provided (for example, loan processing fees, investment management fees and loan syndication fees); and
- interest earned on the execution of a significant act is recognised as revenue when the act is completed (for example, commission on the allotment of shares to a client, placement fees for arranging a loan between the borrower and an investor).

Fees and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

#### (j) Net investment income

Net investment income comprise gains less losses relating to realised and unrealised gains and losses on trading investments, realised gains and losses on non-trading investments and dividend income. Dividend income is recognised when the right to receive payment is established.

#### (k) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at rates of exchange at the balance sheet date. Resulting gains and losses are taken to the income statement.

#### (l) Derivative financial instruments

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the income statement. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

#### (m) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

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

#### (n) Staff terminal benefits

UAE nationals employed by the Bank are registered in the scheme managed by the General Pension and Social Security Authority. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Bank's internal regulations, which comply with the UAE Federal Labour Law.

An actuarial valuation has not been performed on employees' end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

#### (o) Financial guarantees

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

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

#### (p) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

#### (q) New standards and interpretations not yet adopted

The Bank has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2008:

- IFRS 8 Operating Segments (effective 1 January 2009);
- IAS 23 (Revised): Borrowing costs (1 January 2009); and
- IAS1 (Revised) Presentation of financial statements (1 January 2009).

The application of these new interpretations will not have a material impact on the Bank's financial statements in the period of initial application.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management

#### (a) Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

#### *Risk management framework*

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Board has entrusted the risk management with a number of managers to set-up and monitor the Bank's credit, operational and market risks, to take credit decisions above management's discretionary powers and to set market risk limits under which the Bank's management operates.

The risk management team has further set up from within management, an Assets and Liabilities Committee (ALCO) and an Operational Risk Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The Bank's Audit Committee is assisted in these functions by the Inspection Department.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management (*continued*)

#### (b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Bank to incur a financial loss. It arises principally from the Bank's loans and advances, due from banks and non-trading investments.

For risk management purposes, credit risk arising on trading investments is managed independently, but reported as a component of market risk exposure.

#### Management of credit risk

The Bank's credit risk management framework includes:

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

The risk management team is responsible for sanctioning high value credits and responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments; if any, is limited to those with positive fair values.

Regular audits of business units and Bank credit processes are undertaken by the Inspection Department.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management (continued)

#### (b) Credit risk (continued)

##### Exposure to credit risk

The Bank measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any.

	Due from Banks		Loans and advances		Non-trading investments	
	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000
<b>Carrying amount</b>	<b>3,570,490</b>	3,749,365	<b>7,093,201</b>	3,978,176	<b>47,857</b>	51,726
<b>Individually impaired</b>						
Substandard	-	-	<b>334,620</b>	136,216	<b>12,409</b>	29,783
Doubtful	-	-	<b>1,168,405</b>	300,599	-	-
Loss	-	-	<b>101,919</b>	1,164,980	-	-
Gross amount	-	-	<b>1,604,944</b>	1,601,795	<b>12,409</b>	29,783
Specific impairment allowance	-	-	<b>(441,584)</b>	(481,323)	<b>(11,497)</b>	(9,798)
Interest suspended	-	-	<b>(853,440)</b>	(798,281)	-	-
Carrying amount	-	-	<b>309,920</b>	322,191	<b>912</b>	19,985
<b>Past due but not impaired</b>						
Carrying amount of overdue by less than 90 days*	-	-	<b>7,269</b>	2,055	-	-
<b>Neither past due nor impaired</b>	<b>3,570,490</b>	3,749,365	<b>6,809,975</b>	3,668,306	<b>46,945</b>	31,741
<b>Collective impairment allowance</b>	-	-	<b>(33,963)</b>	(14,376)	-	-
<b>Carrying amount</b>	<b>3,570,490</b>	3,749,365	<b>7,093,201</b>	3,978,176	<b>47,857</b>	51,726

\* The Bank's policy is to classify loans and advances past due for more than 90 days as substandard, which comply with the Central Bank of the UAE requirements.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### **4 Financial risk management** *(continued)*

#### **(b) Credit risk** *(continued)*

##### *Impaired loans and advances and non-trading investments*

Impaired loans and advances and non-trading investments are financial assets for which the Bank determines that it is probable that the Bank will be unable to collect all principal and interest due according to the contractual terms of the agreements.

##### *Allowances for impairment*

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

##### *Write-off policy*

The Bank writes off a loan / investment balance (and any related allowances for impairment) when the management determines that the loans / investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

##### *Collateral*

The Bank holds collateral against loans and advances in the form of mortgage interests over property, vehicles and other securities over assets and guarantees. The Bank accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational large corporate and high net-worth private individuals. Collateral is not held against non-trading investments and due from banks.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### (b) Credit risk *(continued)*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Loans and advances	
	2008 AED'000	2007 AED'000
<b>Carrying amount</b>	<b>7,093,201</b>	3,978,176
<i>Concentration by industry sector</i>		
Agriculture	36,274	37,708
Energy	57,365	29,365
Manufacturing	393,326	225,985
Construction	705,314	599,687
Real estate	1,120,867	964,931
Trading	4,875,670	2,101,824
Transport	287,453	279,641
Financial institutions	250,000	500,000
Services	39,066	117,819
Government	37,821	12,253
Personal loans for consumption	323,014	200,651
Personal loans for business	37,821	29,741
Others	258,197	158,175
	<b>8,422,188</b>	5,257,780
Less: interest suspended	(853,440)	(798,281)
Less: allowance for impairment	(475,547)	(481,323)
<b>Carrying amount</b>	<b>7,093,201</b>	3,978,176

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management (continued)

#### (b) Credit risk (continued)

	Due from banks		Non-trading investments	
	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000
<b>Carrying amount</b>	<b>3,570,490</b>	3,749,365	<b>47,857</b>	51,726
<i>Concentration by sector</i>				
Public sector	-	-	<b>1,377</b>	3,339
Private sector	-	-	<b>57,977</b>	58,185
Financial institution	<b>3,570,490</b>	3,749,365	-	-
	<b>3,570,490</b>	3,749,365	<b>59,354</b>	61,524
Less: allowance for impairment	-	-	<b>(11,497)</b>	(9,798)
<b>Carrying amount</b>	<b>3,570,490</b>	3,749,365	<b>47,857</b>	51,726

	Due from banks		Loans and advances		Non-trading investments	
	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000	2008 AED'000	2007 AED'000
<i>Concentration by location</i>						
UAE	<b>1,600,954</b>	1,499,962	<b>6,983,838</b>	3,953,260	-	-
Europe	<b>802,574</b>	1,323,487	-	9,365	<b>1,378</b>	3,340
Arab world	<b>959,210</b>	909,509	<b>105,957</b>	12,253	<b>28,562</b>	28,400
North America	<b>31,844</b>	10,880	-	-	-	-
Asia	<b>175,908</b>	5,527	-	-	<b>11,019</b>	-
Others	-	-	<b>3,406</b>	3,298	<b>6,898</b>	19,986
	<b>3,570,490</b>	3,749,365	<b>7,093,201</b>	3,978,176	<b>47,857</b>	51,726

Concentration by location for loans and advances and due from banks is measured based on the residential status of the borrower. Concentration by location for non-trading investments is measured based on the location of the issuer of the security.

#### *Loans and advances renegotiated*

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled AED 28,115 thousands (2007: AED 10,659 thousands).

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### (b) Credit risk *(continued)*

##### *Settlement risk*

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

##### *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 market value of instruments that are favourable to the Bank, which are included in other assets. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Bank's derivative contracts are entered into with other financial institutions.

##### *Commitments and contingencies related credit risk*

Credit risk arising from commitments and contingencies is discussed in note 26.

#### (c) Liquidity risk

Liquidity or funding risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately.

##### *Management of liquidity risk*

The Bank's approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid trading investments, and inter-bank placements. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee ("ALCO").

##### *Exposure to liquidity risk*

The key measure used by the Bank for measuring liquidity risk is the ratio of net liquid assets, i.e. total assets by maturity against total liabilities by maturity.

Details of the Bank's net liquid assets is summarised in the table below by the maturity profile of the Bank's assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Bank's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### (c) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities at 31 December 2008 was as follows:

	Unspecified maturity AED'000	Up to 3 months AED'000	3 month to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>Assets</b>						
Cash and balances with central banks	17,521	273,977	-	-	-	291,498
Due from banks	63,313	1,849,347	1,657,830	-	-	3,570,490
Trading investments	39,688	-	-	-	-	39,688
Loans and advances	-	3,534,997	1,421,212	1,464,948	672,044	7,093,201
Non-trading investments	-	-	288	288	47,281	47,857
Other assets	149,250	330,000	1,089,904	-	-	1,569,154
Premises and equipment	1,138,353	-	-	-	-	1,138,353
<b>Total assets</b>	<b>1,408,125</b>	<b>5,988,321</b>	<b>4,169,234</b>	<b>1,465,236</b>	<b>719,325</b>	<b>13,750,241</b>
<b>Liabilities and equity</b>						
Customers' deposits	2,151,007	2,323,225	1,346,856	-	-	5,821,088
Due to banks	218,907	3,393,797	293,840	-	-	3,906,544
Other liabilities	21,760	169,623	1,089,904	-	-	1,281,287
Equity	2,741,322	-	-	-	-	2,741,322
<b>Total liabilities and equity</b>	<b>5,132,996</b>	<b>5,886,645</b>	<b>2,730,600</b>	<b>-</b>	<b>-</b>	<b>13,750,241</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management (continued)

#### (c) Liquidity risk (continued)

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

	Unspecified maturity AED'000	Up to 3 months AED'000	3 month to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>Assets</b>						
Cash and balances with central banks	102,387	666,235	550,000	-	-	1,318,622
Due from banks	-	3,422,793	326,572	-	-	3,749,365
Trading investments	129,749	-	-	-	-	129,749
Loans and advances	-	1,854,505	744,658	494,100	884,913	3,978,176
Non-trading investments	-	-	304	1,216	50,206	51,726
Other assets	222,852	-	525,742	-	-	748,594
Premises and equipment	427,903	-	-	-	-	427,903
<b>Total assets</b>	<b>882,891</b>	<b>5,943,533</b>	<b>2,147,276</b>	<b>495,316</b>	<b>935,119</b>	<b>10,404,135</b>
<b>Liabilities and equity</b>						
Customers' deposits	-	2,938,845	1,395,933	-	-	4,334,778
Due to banks	833,420	1,774,800	144,824	-	-	2,753,044
Other liabilities	17,421	129,145	530,912	-	-	677,478
Equity	2,638,835	-	-	-	-	2,638,835
<b>Total liabilities and equity</b>	<b>3,489,676</b>	<b>4,842,790</b>	<b>2,071,669</b>	<b>-</b>	<b>-</b>	<b>10,404,135</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management *(continued)*

#### (c) Liquidity risk *(continued)*

The previous table shows undiscounted cash flows on the Bank's financial assets and liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows may vary from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

#### (d) Market risk

Market risk is the risk that the Bank's income and / or value of a financial instrument will fluctuate because of changes in market prices such as interest rates, foreign exchange rates and market prices of equity.

##### *Management of market risk*

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed fortnightly by the ALCO.

##### *Interest rate risk*

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's treasury, which uses derivative instruments to manage overall position arising from the Bank's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 27.

The substantial portion of the Bank's assets and liabilities are re-priced within six months. Accordingly, there is limited exposure to interest rate risk.

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

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial risk management (continued)

#### (d) Market risk (continued)

The Bank's interest rate sensitivity position and interest rate gap position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

	<b>Total AED'000</b>	<b>Up to 3 months AED'000</b>	<b>3 months to 1 year AED'000</b>	<b>1 to 5 years AED'000</b>	<b>Over 5 years AED'000</b>	<b>Non interest bearing AED'000</b>
<b>Assets</b>						
Cash and balances with the Central Bank	291,498	-	-	-	-	291,498
Trading investments	39,688	-	-	-	-	39,688
Due from banks	3,570,490	1,849,347	1,657,830	-	-	63,313
Loans and advances	7,093,201	7,093,201	-	-	-	-
Non-trading investments	47,857	-	288	1,240	1,168	45,161
Other assets	1,569,154	330,000	-	-	-	1,239,154
Premises and equipment	1,138,353	-	-	-	-	1,138,353
<b>Total assets</b>	<b>13,750,241</b>	<b>9,272,548</b>	<b>1,658,118</b>	<b>1,240</b>	<b>1,168</b>	<b>2,817,167</b>
<b>Liabilities and equity</b>						
Customers' deposits	5,821,088	2,512,732	1,346,856	-	-	1,961,500
Due to banks	3,906,544	3,393,797	293,840	-	-	218,907
Other liabilities	1,281,287	-	-	-	-	1,281,287
Equity	2,741,322	-	-	-	-	2,741,322
<b>Total liabilities and equity</b>	<b>13,750,241</b>	<b>5,906,529</b>	<b>1,640,696</b>	<b>-</b>	<b>-</b>	<b>6,203,016</b>
On balance sheet gap	-	3,366,019	17,422	1,240	1,168	(3,385,849)
Off balance sheet gap	-	(411,378)	336,018	75,360	-	-
Total interest rate sensitivity gap	-	2,954,641	353,440	76,600	1,168	(3,385,849)
<b>Cumulative interest rate sensitivity</b>	<b>-</b>	<b>2,954,641</b>	<b>3,308,081</b>	<b>3,384,681</b>	<b>3,385,849</b>	<b>-</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial Risk Management (continued)

#### (d) Market risk (continued)

The Bank's interest rate sensitivity position based on a contractual re-pricing arrangement at 31 December 2007 was as follows:

	<b>Total AED'000</b>	<b>Up to 3 months AED'000</b>	<b>3 months to 1 year AED'000</b>	<b>1 to 5 years AED'000</b>	<b>Over 5 years AED'000</b>	<b>Non interest bearing AED'000</b>
<b>Assets</b>						
Cash and balances with the Central Bank	1,318,622	500,000	550,000	-	-	268,622
Trading investments	129,749			-	-	129,749
Due from banks	3,749,365	3,312,603	326,572	-	-	110,190
Loans and advances	3,978,176	3,978,176	-	-	-	-
Non-trading investments	51,726	-	304	1,216	1,168	49,038
Other assets	748,594	-	-	-	-	748,594
Premises and equipment	427,903	-	-	-	-	427,903
<b>Total assets</b>	<b>10,404,135</b>	<b>7,790,779</b>	<b>876,876</b>	<b>1,216</b>	<b>1,168</b>	<b>1,734,096</b>
<b>Liabilities and equity</b>						
Due to banks	2,753,044	2,334,735	144,824	-	-	273,485
Customers' deposits	4,334,778	1,887,986	1,395,933	-	-	1,050,859
Other liabilities	677,478	-	-	-	-	677,478
Equity	2,638,835	-	-	-	-	2,638,835
<b>Total liabilities and equity</b>	<b>10,404,135</b>	<b>4,222,721</b>	<b>1,540,757</b>	<b>-</b>	<b>-</b>	<b>4,640,657</b>
On balance sheet gap	-	3,568,058	(663,881)	1,216	1,168	(2,906,561)
Off balance sheet gap	-	(436,071)	389,341	46,730	-	-
Total interest rate sensitivity gap	-	3,131,987	(274,540)	47,946	1,168	(2,906,561)
<b>Cumulative interest rate sensitivity</b>	<b>-</b>	<b>3,131,987</b>	<b>2,857,447</b>	<b>2,905,393</b>	<b>2,906,561</b>	<b>-</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial Risk Management *(continued)*

#### (d) Market risks *(continued)*

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Bank assumes a fluctuation in interest rates of 75 basis points (2007: 25 basis points) and estimates the following impact on the profit for the year and equity at that date:

	<b>2008</b> <b>Profit</b> <b>for the year</b> <b>AED'000</b>	2007 Profit for the year AED'000	<b>2008</b> <b>Equity</b> <b>AED'000</b>	2007 Equity AED'000
Fluctuation in yield	<b>2,540</b>	1,510	<b>21</b>	14

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 10,933 million interest bearing assets at year end (2007: AED 8,666 million) and AED 7,547 million interest bearing liabilities at year end (2007: AED 5,763 million). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the UAE Dirham. As at 31 December 2008, the Bank had the following significant net exposures denominated in foreign currencies:

	<b>Net spot</b> <b>position</b> <b>AED'000</b>	<b>Forward</b> <b>position</b> <b>AED'000</b>	<b>Total</b> <b>2008</b> <b>AED'000</b>	Total 2007 AED'000
<b>Currency</b>				
US dollar	<b>(1,121,080)</b>	<b>(139,230)</b>	<b>(1,260,310)</b>	37,531
Sterling pound	<b>225</b>	-	<b>225</b>	1,124
Euro	<b>19,556</b>	<b>2,238</b>	<b>21,794</b>	26,117

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

#### *Equity price risk*

Equity price risk arises from the change in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial Risk Management *(continued)*

#### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Inspection Department. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

#### (f) Capital management

The Bank's lead regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are:

- safeguarding the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- complying with regulatory capital requirements set by the Central Bank of the UAE.

During 2008, the Bank's strategy, which was unchanged from 2007, was to:

- maintain a cash dividend payout to increase capital through retention;
- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel I accord guidelines; and
- allocate capital to various businesses in an efficient manner.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial Risk Management *(continued)*

#### (f) Capital management *(continued)*

In implementing current capital requirements, the Bank calculates its risk asset ratio in accordance with capital adequacy guidelines established by the Central Bank of the UAE prescribing the ratio of total capital to total risk-weighted assets. Furthermore, the Bank also calculates its capital adequacy ratio in accordance with Basel I Accord.

The Bank's regulatory capital adequacy ratios, set by the Central Bank of the UAE at a minimum level of 10%, is analysed into two tiers as follows:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
<b>Tier 1 capital</b>		
Ordinary share capital	<b>1,500,000</b>	1,500,000
Retained earnings	<b>353,494</b>	297,075
Statutory and special reserve	<b>499,251</b>	440,147
General reserve	<b>380,000</b>	380,000
	<u><b>2,732,745</b></u>	<u>2,617,222</u>
<b>Tier 2 capital</b>		
Fair value reserve for available for sale investments	<b>8,577</b>	21,613
	<u><b>8,577</b></u>	<u>21,613</u>
<b>Total capital base</b>	<u><b>2,741,322</b></u>	<u>2,638,835</u>
<i>Risk weighted assets:</i>		
On balance sheet	<b>8,851,707</b>	4,971,943
Off balance sheet	<b>3,003,512</b>	2,511,398
<b>Risk weighted assets</b>	<u><b>11,855,219</b></u>	<u>7,483,341</u>
<b>Risk asset ratio</b>	<u><b>23%</b></u>	<u>35%</u>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 4 Financial Risk Management *(continued)*

#### (f) Capital management *(continued)*

The Bank's capital adequacy ratio as per Basel I, at a minimum level of 8%, is analysed into two tiers as follows:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
<b>Tier 1 capital</b>		
Ordinary share capital	<b>1,500,000</b>	1,500,000
Retained earnings	<b>353,494</b>	297,075
Statutory and special reserve	<b>499,251</b>	440,147
General reserve	<b>380,000</b>	380,000
	<u><b>2,732,745</b></u>	<u>2,617,222</u>
<b>Tier 2 capital</b>		
Fair value reserve for available for sale investments	<b>8,577</b>	21,613
Allowance for collective impairment	<b>33,963</b>	14,376
	<u><b>42,540</b></u>	<u>35,989</u>
<b>Total capital base</b>	<u><b>2,775,285</b></u>	<u>2,653,211</u>
<i>Risk weighted assets:</i>		
On balance sheet	<b>8,885,670</b>	4,986,319
Off balance sheet	<b>3,003,512</b>	2,511,398
<b>Risk weighted assets</b>	<u><b>11,889,182</b></u>	<u>7,497,717</u>
<b>Risk asset ratio</b>	<u><b>23%</b></u>	<u>35%</u>

The Bank has complied with all externally imposed capital requirements for all periods presented.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 5 Use of estimates and judgements

In the process of applying the Bank's accounting policies management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the financial statements.

#### (i) *Key sources of estimation uncertainty*

##### *Impairment charge on loans and advances and investments*

Impairment losses are evaluated as described in accounting policy 3(a) (viii).

The Bank evaluates impairment on loans and advances and investments on an ongoing basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognised 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 impairment charge required. In estimating these cash flows, management makes judgements about the counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

##### *Collective impairment charge on loans and advances*

In addition to specific impairment charge against individually impaired assets, the Bank also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

#### (ii) *Critical accounting judgements in applying the Bank's accounting policies*

##### *Financial asset and liability classification*

The Bank's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets as trading investments or non-trading investments (available for sale), the Bank has determined it meets the description as set out in accounting policy 3(a) (iii and iv).

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### **6 Financial assets and liabilities**

#### *(i) Fair value of financial instruments*

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

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

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

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

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 6 Financial assets and liabilities (continued)

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

	<b>Trading AED'000</b>	<b>Non-trading AED'000</b>	<b>Loans and advances AED'000</b>	<b>Other amortised cost AED'000</b>	<b>Total carrying amount AED'000</b>
Cash and balances with central banks	-	-	291,498	-	291,498
Due from banks	-	-	3,570,490	-	3,570,490
Trading investments	39,688	-	-	-	39,688
Loans and advances	-	-	7,093,201	-	7,093,201
Non-trading investments	-	47,857	-	-	47,857
Other assets	-	-	-	1,569,154	1,569,154
	<b>39,688</b>	<b>47,857</b>	<b>10,955,189</b>	<b>1,569,154</b>	<b>12,611,888</b>
Customers' deposits	-	-	-	5,821,088	5,821,088
Due to banks	-	-	-	3,906,544	3,906,544
Other liabilities	534	-	-	1,280,753	1,281,287
	<b>534</b>	<b>-</b>	<b>-</b>	<b>11,008,385</b>	<b>11,008,919</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 6 Financial assets and liabilities (continued)

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

	Trading AED'000	Non-trading AED'000	Loans and advances AED'000	Other amortised cost AED'000	Total carrying amount AED'000
Cash and balances with central banks	-	-	1,318,622	-	1,318,622
Due from banks	-	-	3,749,365	-	3,749,365
Trading investments	129,749	-	-	-	129,749
Loans and advances	-	-	3,978,176	-	3,978,176
Non-trading investments	-	51,726	-	-	51,726
Other assets	1,395	-	-	747,199	748,594
	<b>131,144</b>	<b>51,726</b>	<b>9,046,163</b>	<b>747,199</b>	<b>9,976,232</b>
Customers' deposits	-	-	-	4,334,778	4,334,778
Due to banks	-	-	-	2,753,044	2,753,044
Other liabilities	-	-	-	677,478	677,478
	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,765,300</b>	<b>7,765,300</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 7 Cash and balances with the Central Bank of the UAE

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Cash on hand	<b>20,765</b>	20,632
Balances with the Central Bank of the UAE	<b>(3,244)</b>	81,755
Cash reserve deposits	<b>273,977</b>	166,235
Certificates of deposits	-	1,050,000
	<b>291,498</b>	1,318,622

Cash reserve deposits are not available for the day to day operations of the Bank.

### 8 Due from banks

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Current, call and notice deposits	<b>63,313</b>	110,190
Fixed deposits	<b>3,507,177</b>	3,639,175
	<b>3,570,490</b>	3,749,365

### 9 Trading investments

Trading investments comprise investments in local equities traded on recognised stock exchanges.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 10 Loans and advances

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Gross loans and advances	<b>8,422,188</b>	5,257,780
Less: allowance for impairment	<b>(475,547)</b>	(481,323)
Less: interest suspended	<b>(853,440)</b>	(798,281)
<b>Net loans and advances</b>	<b>7,093,201</b>	3,978,176

An analysis of gross loans and advances by sector at the reporting date is shown below:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Government sector	<b>105,957</b>	12,253
Financial sector	<b>21,498</b>	39,931
Private sector	<b>7,971,719</b>	4,975,038
Retail sector	<b>323,014</b>	230,436
<b>Gross loans and advances</b>	<b>8,422,188</b>	5,257,658

The movement in the allowance for impairment during the year is shown below:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
At 1 January	<b>481,323</b>	562,224
Specific charge for the year	<b>19,246</b>	47,275
Collective charge for the year	<b>19,693</b>	13,206
Recoveries	<b>(25,380)</b>	(77,596)
Write-backs	<b>-</b>	(7,517)
Write-offs	<b>(14,346)</b>	(55,985)
Currency translation	<b>(4,989)</b>	(284)
At 31 December	<b>475,547</b>	481,323

The Bank recovered during the year AED Nil that had been previously written off (2007: AED 17,451) which were directly recognised in the income statement.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 11 Non-trading investments

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
<b>Available-for-sale investments</b>		
Gross investments	<b>59,354</b>	61,524
Less: allowance for impairment	<b>(11,497)</b>	(9,798)
Net investments	<b>47,857</b>	51,726

### 12 Acceptances and other assets

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Acceptances	<b>1,111,664</b>	525,742
Sundry debtors and other receivables	<b>360,030</b>	173,416
Interest receivable	<b>97,460</b>	48,041
Positive fair value of derivatives (note 27)	<b>-</b>	1,395
	<b>1,569,154</b>	748,594

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 13 Premises and equipment

	Freehold land AED'000	Buildings AED'000	Furniture equipment and vehicles AED'000	Total AED'000
<b>Cost</b>				
Balance at 1 January 2007	111,276	197,571	36,159	345,006
Acquisitions	187,335	57,988	11,725	257,048
Disposals	-	-	(1,951)	(1,951)
Balance at 31 December 2007	<u>298,611</u>	<u>255,559</u>	<u>45,933</u>	<u>600,103</u>
Balance at 1 January 2008	298,611	255,559	45,933	600,103
Acquisitions	603,412	110,032	10,615	724,059
Disposals	-	-	(1,041)	(1,041)
<b>Balance at 31 December 2008</b>	<u><b>902,023</b></u>	<u><b>365,591</b></u>	<u><b>55,507</b></u>	<u><b>1,323,121</b></u>
<b>Accumulated Depreciation</b>				
Balance at 1 January 2007	-	132,970	28,985	161,955
Charge for the year	-	5,941	6,252	12,193
Disposals	-	-	(1,950)	(1,950)
Balance at 31 December 2007	<u>-</u>	<u>138,911</u>	<u>33,287</u>	<u>172,198</u>
Balance at 1 January 2008	-	138,911	33,287	172,198
Charge for the year	-	5,941	7,670	13,611
Disposals	-	-	(1,041)	(1,041)
<b>Balance at 31 December 2008</b>	<u>-</u>	<u><b>144,852</b></u>	<u><b>39,916</b></u>	<u><b>184,768</b></u>
<b>Carrying amounts</b>				
At 1 January 2007	<u>111,276</u>	<u>64,601</u>	<u>7,174</u>	<u>183,051</u>
At 31 December 2007	<u>298,611</u>	<u>116,648</u>	<u>12,644</u>	<u>427,903</u>
<b>At 31 December 2008</b>	<u><b>902,023</b></u>	<u><b>220,739</b></u>	<u><b>15,591</b></u>	<u><b>1,138,353</b></u>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 14 Customers' deposits

	2008 AED'000	2007 AED'000
<i>By type:</i>		
Notice and time deposits	3,670,081	3,169,195
Current accounts	2,128,258	1,142,555
Savings accounts	22,749	23,028
	<u>5,821,088</u>	<u>4,334,778</u>
<i>By sector:</i>		
Government sector	2,532,105	1,940,144
Public sector	-	-
Private sector	2,884,905	2,018,041
Retail sector	404,078	376,593
	<u>5,821,088</u>	<u>4,334,778</u>

### 15 Due to banks

	2008 AED'000	2007 AED'000
Current, call and notice deposits	218,907	273,485
Fixed deposits	3,687,637	2,479,559
	<u>3,906,544</u>	<u>2,753,044</u>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 16 Acceptances and other liabilities

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Interest payable	<b>23,590</b>	36,441
Acceptances	<b>1,111,664</b>	525,742
Provision for staff terminal benefits	<b>21,760</b>	17,421
Others	<b>124,273</b>	97,874
	<b>1,281,287</b>	677,478

The movement in the provision for employees' end of service benefits was as follows:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Balance at 1 January	<b>17,421</b>	18,050
Provided during the year	<b>5,670</b>	2,064
Paid during the year	<b>(1,331)</b>	(2,693)
Balance at 31 December	<b>21,760</b>	17,421

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 17 Capital and reserves

#### *Share capital*

The authorised, issued and fully paid share capital of the Bank comprises 75,000 ordinary shares of AED 20,000 each (2007: 75,000 shares of AED 20,000 each).

#### *Statutory reserve*

In accordance with the statutes of the Bank, 10% of the profit for each year is transferred to a statutory reserve until this reserve equals 50% of the share capital. The statutory reserve is not available for distribution.

#### *Special reserve*

In accordance with Union Law No. 10 of 1980 concerning the Central Bank of the UAE, the monetary system and organisation of banking, 10% of the net profit for each year is transferred to a special reserve until this reserve equals 50% of the share capital. The special reserve is not available for distribution.

#### *General reserve*

The general reserve has been established to enhance the equity base of the Bank. 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.

#### *Revaluation reserve*

The revaluation reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired.

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
<i>Revaluation reserve – non-trading investment</i>		
At 1 January	<b>21,613</b>	2,780
Net (loss) / gain recognised	<b>(13,036)</b>	18,833
At 31 December	<b>8,577</b>	21,613

#### *Dividends*

The Bank paid AED 180 million (2007: AED 46.2 million) cash dividends in accordance with the Annual General Assembly resolution dated on 24 March 2008.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 18 Interest income

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Loans and advances to customers	<b>389,292</b>	227,842
Due from banks	<b>166,812</b>	216,759
Certificate of deposits	<b>13,501</b>	24,166
	<b>569,605</b>	468,767

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 19 Interest expense

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Customers' deposits	<b>132,907</b>	157,063
Due to banks	<b>114,404</b>	88,875
	<b>247,311</b>	245,938

### 20 Net fee and commission income

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
<b>Fee and commission income</b>		
Letters of credit	<b>87,221</b>	64,759
Letters of guarantee	<b>27,074</b>	15,215
Retail and corporate lending fees	<b>23,679</b>	6,301
Commission on transfers	<b>12,941</b>	8,360
Others	<b>20,670</b>	10,209
<b>Total fee and commission income</b>	<b>171,585</b>	104,844
<b>Fee and commission expense</b>		
Brokerage commission	<b>35</b>	45
Handling charges	<b>1,863</b>	1,176
Other commission	<b>1,361</b>	734
<b>Total fee and commission expense</b>	<b>3,259</b>	1,955
<b>Net fee and commission income</b>	<b>168,326</b>	102,889

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 21 Net investment (loss) / gain

	2008 AED'000	2007 AED'000
Net (loss) / gain from trading investments	(103,940)	6,289
Gain from sale of trading investments	5,688	7,589
Dividend income from non-trading investments	1,816	808
	<u>(96,436)</u>	<u>14,686</u>

### 22 Net foreign exchange gain

	2008 AED'000	2007 AED'000
Trading and retranslation gain	27,230	10,850
Dealings with customers	3,468	3,261
	<u>30,698</u>	<u>14,111</u>

### 23 General, administration and other operating expenses

	2008 AED'000	2007 AED'000
Staff costs	97,110	67,740
Other general and administration expenses	19,628	17,056
Depreciation	13,611	12,193
	<u>130,349</u>	<u>96,989</u>

The number of employees as at 31 December 2008 was 296 employees (2007: 261 employees).

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 24 Net impairment charge on financial assets

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Provision for impairment on:		
- loans and advances (note 10)	<b>(38,939)</b>	(60,481)
- non-trading investments	<b>(1,699)</b>	-
Write back of provisions		
for loans and advances (note 10)	-	7,517
Recoveries (note 10)	<b>28,504</b>	77,596
Recoveries of written off balances (note 10)	-	17,451
	<u><b>(12,134)</b></u>	<u>42,083</u>

### 25 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Cash and balances with the Central Bank	<b>291,498</b>	768,622
Due from banks	<b>1,136,868</b>	3,422,793
Due to banks	<b>(3,274,317)</b>	(2,608,220)
	<u><b>(1,845,951)</b></u>	<u>1,583,195</u>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 26 Commitments and contingencies

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Letters of credit	<b>4,143,350</b>	3,509,012
Letters of guarantee	<b>2,666,110</b>	1,507,553
	<b><u>6,809,460</u></b>	<u>5,016,565</u>

Commitments at the reporting date are shown below:

	<b>2008</b>	2007
	<b>AED'000</b>	AED'000
Un-drawn commitments to extend credit	<b>2,700,000</b>	1,082,589
Commitment for future capital expenditure	<b>153,074</b>	173,684
Commitments to extend financial guarantees	<b>2,750,000</b>	1,587,000
	<b><u>5,603,074</u></b>	<u>2,843,273</u>
<b>Total commitments and contingencies</b>	<b><u><u>12,412,534</u></u></b>	<u><u>7,859,838</u></u>

Letters of credit and guarantee commit the Bank to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

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

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 27 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments include forwards and swaps and options.

Forwards and futures contracts are commitments to either purchase or sell foreign currencies, commodities or financial instruments at a specified future date for a specified price.

Swaps are the agreements between the Bank and other parties to exchange future cash flows based upon agreed notional amounts.

Derivatives are measured at fair value by reference to published price quotations in an active market or counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to their fair values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying, 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.

	<b>Positive market value AED'000</b>	<b>Negative market value AED'000</b>	<b>Notional amount AED'000</b>	<b>Less than three months AED'000</b>	<b>Three months to one year AED'000</b>
<b>2008</b>					
<i>Held for trading:</i>					
Foreign exchange forwards	<b>1,068</b>	<b>12,866</b>	<b>433,452</b>	<b>240,755</b>	<b>192,697</b>
<b>2007</b>					
<i>Held for trading:</i>					
Foreign exchange forwards	<b>2,524</b>	<b>1,129</b>	<b>327,727</b>	<b>184,947</b>	<b>142,780</b>

#### *Derivatives held for trading*

The Bank uses derivatives to manage its exposure to foreign currency and interest rate. The instruments used mainly include currency swaps and forwards. The fair values of those derivatives are shown in the above table.

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 28 Related parties

#### Identity of related parties

Related parties comprise major shareholders, directors and key management of the Bank and their related concerns. The terms of these transactions are approved by the Bank's management or its board of directors.

Balances with related parties at the reporting date are shown below:

	<b>Major shareholders AED'000</b>	<b>Directors and key management AED'000</b>	<b>2008 Total AED'000</b>	<b>2007 Total AED'000</b>
Loans and advances	-	3,000	3,000	5,275
Customers' deposits	3,204,746	5,914	3,210,660	1,192,323
Commitments and contingencies	443,100	-	443,100	467,608

Interest rate charged to major shareholders and key management personnel on loans and advances ranged between 5% to 6% (2007: 5% to 6%) and 3% to 5% (2007: 4% to 6%) respectively.

Transactions carried out during the year with related parties are shown below:

	<b>Major shareholders AED'000</b>	<b>Directors and key management AED'000</b>	<b>2008 Total AED'000</b>	<b>2007 Total AED'000</b>
Fee and commission income	6,273	-	6,273	10,477
Interest income	590	35	625	130
Interest expense	64,870	155	65,025	43,023

Key management compensation and directors' remuneration are shown below:

	<b>2008 AED'000</b>	<b>2007 AED'000</b>
Short term employment benefits	8,500	8,106
Post employment benefits	1,607	1,378
<b>Key management compensation</b>	<b>10,107</b>	<b>9,484</b>
<b>Directors' remuneration</b>	<b>1,207</b>	<b>1,107</b>

# Arab Bank for Investment and Foreign Trade PJSC

## Notes to the financial statements

### 29 Earnings per share

#### Basic and diluted earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2008	2007
<b>Profit for the year (AED '000)</b>	<b>295,523</b>	311,353
<i>Weighted average number of ordinary shares:</i>		
Ordinary shares as at 1 January ('000s)	75.00	33.00
Effect of bonus shares issued during 2007 ('000s)	-	5.00
New shares issued (37 shares for 4 months)	-	12.33
<b>Weighted average number of ordinary shares ('000s)</b>	<b>75.00</b>	50.33
<b>Basic and diluted earnings per share (AED'000)</b>	<b>3.94</b>	6.19

### 30 Comparative figures

Comparative figures have been reclassified to conform to the presentation for the current year.