

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

FINANCIAL STATEMENTS

31 DECEMBER 2009

REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2009

The Directors are pleased to place before the shareholders of Arab Emirates Investment Bank pjsc ("Bank") the Annual Report for the year ended 31 December 2009.

As discussed in our report last year, the global financial crisis that started in the second half of 2008 provided our bank with what seemed to be an opportunity. Our Bank's simple model appeared to work relatively well under the prevailing difficult circumstances. Our depositors and other counterparties derived a certain level of comfort in dealing with our understandable financial institution.

The 2009 financial year was a year for testing our proposition. Would high net worth clients and institutions truly prefer to work with a small boutique like ours over banks with large balance sheets? Would they value our personalized, low-bureaucracy service? The answer we got during 2009 was a resounding "yes". By focusing our efforts, we managed to grow our deposits by 176% from AED 179,243,894 to AED 495,248,102 while our assets under management (AUMs) grew by 314% from AED 48,237,305 to AED 199,775,282.

Historically, high net worth individuals in the UAE had in essence the option to work with one of two types of banks; local commercial banks or European private banks. The systems the local commercial banks have in place service retail customers quite well. However, the same systems make it difficult for them to provide the level of service more suitable for dealing with high net worth individuals. Though the European private banking institutions are frequently able to provide good service to high net worth clients, they are not able to book their clients' assets locally in AEDs and they can be quite expensive. Our Bank seeks to provide high net worth clients with the service level they deserve while booking their assets locally at a reasonable cost.

During 2009, our Bank generated a profit of AED 9,786,500 as compared to less than AED 600,000 in 2008. This improvement arose partly from the growth in our deposits and AUMs, as described above. It was also impacted by our decision earlier in the year to invest in GCC government bond issues in order to take advantage of the dislocation that occurred in the debt markets. This allowed us to lock in an attractive return on our investments in the medium term and generate some capital gains in the short term. It should also be noted that our investment banking business contributed to the profits of the Bank in 2009 in a meaningful way for the first time.

The profit this year is proposed to be appropriated as under:

	AED
- Transfer to legal reserve in accordance with the requirements of Article 58(1) of the Articles of association of the Bank	978,650
- Transfer to special reserve in accordance with the requirements of Article 58(2) of the Articles of association of the Bank	978,650

We enter 2010 with confidence. With capital adequacy (Tier 1) of 27.4%, our counterparties know that ours is a very sound and stable institution they can do business with. We will now continue to invest in our people and our systems to develop a successful UAE-based private banking boutique focused on successfully servicing the investment and transactional needs of our high net worth and institutional clients.

Board of Directors
9 March 2010
Dubai, United Arab Emirates

10285

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB EMIRATES INVESTMENT BANK P.J.S.C.

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 statement of financial position as at 31 December 2009 and the statements of income, comprehensive income, changes in equity and cash flows 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.

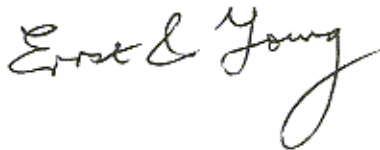
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, 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.

A handwritten signature in black ink, appearing to read 'Ernst & Young' in a cursive script.

Signed by:
Edward B Quinlan
Partner
Registration No. 93

9 March 2010

Dubai, United Arab Emirates

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

INCOME STATEMENT

Year ended 31 December 2009

	<i>Notes</i>	<i>2009 AED</i>	<i>2008 AED</i>
Interest income		4,137,551	2,762,386
Net income from investments	4	34,382,485	97,087,137
		<u>38,520,036</u>	<u>99,849,523</u>
Interest expense		(13,927,945)	(10,302,858)
NET INTEREST INCOME AND NET INCOME FROM INVESTMENTS		24,592,091	89,546,665
Other income	5	3,883,465	1,006,634
Exchange (loss) / gain - net		(126,743)	(2,106,094)
OPERATING INCOME		28,348,813	88,447,205
General and administrative expenses	6	(11,232,853)	(11,445,034)
Impairment loss on investments		(7,329,460)	(76,403,798)
OPERATING EXPENSES		(18,562,313)	(87,848,832)
NET PROFIT FOR THE YEAR		9,786,500	598,373
BASIC AND DILUTED EARNINGS PER SHARE	7	21.44	1.33

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

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

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009 AED	2008 AED
NET PROFIT FOR THE YEAR	9,786,500	598,373
Other comprehensive income		
Net unrealised gain / (loss) on available for sale investments	23,716,359	(225,558,555)
Net realised gain transferred to income statement		
on disposal of available for sale investments	(14,416,128)	(84,910,017)
Impairment of available for sale investments recognised in income statement	7,329,460	76,403,798
Other comprehensive income for the year	16,629,691	(234,064,774)
Total comprehensive income for the year	26,416,191	(233,466,401)

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

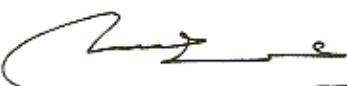
Arab Emirates Investment Bank P.J.S.C.

STATEMENT OF FINANCIAL POSITION

As 31 December 2009

	Notes	2009 AED	2008 AED
ASSETS			
Cash and balances with UAE Central Bank	8	6,782,154	3,063,247
Due from banks	9	96,320,188	38,509,514
Loans and advances	10	7,257,750	17,645,176
Investments	11	533,965,024	307,425,428
Property and equipment	12	2,103,881	2,784,394
Other assets	13	8,067,036	5,414,345
TOTAL ASSETS		654,496,033	374,842,104
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		23,000,000	90,000,000
Customer deposits		495,248,102	179,243,894
Other liabilities	14	11,612,888	7,229,358
TOTAL LIABILITIES		529,860,990	276,473,252
EQUITY			
Share capital	15	44,937,600	44,937,600
Legal reserve	15	21,539,072	20,560,422
Special reserve	15	13,841,921	12,863,271
Cumulative changes in fair values	16	(25,885,674)	(42,515,365)
Retained earnings		70,202,124	62,522,924
TOTAL EQUITY		124,635,043	98,368,852
TOTAL LIABILITIES AND EQUITY		654,496,033	374,842,104

The financial statements were approved by the Board of Directors on 09 March 2010 and signed on its behalf by:


 Omar Abdulla Al Futtain
 (Chairman)


 Marwan Shehadeh
 (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 2009

	2009 AED	2008 AED
OPERATING ACTIVITIES		
Net profit for the year	9,786,500	598,373
Adjustments for:		
Depreciation	771,539	342,475
Profit on sale of property and equipment	(715)	(63,627)
Impairment loss on investments	7,329,460	76,403,798
Charge relating to employees end of service benefits	138,804	214,392
Changes in due from banks with original maturities of over three months	(15,000,000)	(24,000,000)
Change in loans and advances	10,387,426	7,805,557
Change in other assets	(2,652,691)	7,285,176
Change in investments (net)	(217,239,365)	(105,261,148)
Change in customers' deposits	316,004,208	(49,783,071)
Change in other liabilities	4,095,959	3,801,614
Net cash generated from / (used in) operations	113,621,125	(82,656,461)
Employees' end of service benefits paid	(1,233)	(272,179)
Net cash generated from / (used in) operating activities	113,619,892	(82,928,640)
INVESTING ACTIVITIES		
Purchase of property and equipment	(92,168)	(3,185,233)
Proceeds from sale of property and equipment	1,857	275,902
Net cash used in investing activities	(90,311)	(2,909,331)
FINANCING ACTIVITIES		
Dividend paid	-	(8,987,520)
Cash used in financing activities	-	(8,987,520)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	113,529,581	(94,825,491)
Cash and cash equivalents at 1 January	(72,427,239)	22,398,252
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	41,102,342	(72,427,239)
Cash and cash equivalents comprise the following amounts in the statement of financial position with original maturities of three months or less:		
Cash and balances with Central Bank	6,782,154	3,063,247
Due from banks	57,320,188	14,509,514
Due to banks	(23,000,000)	(90,000,000)
	41,102,342	(72,427,239)
Operational cash flows from interest and dividend		
Interest paid	10,353,568	10,446,443
Interest received (including from investments)	11,022,285	6,742,317
Dividend received	10,470,715	11,024,533

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 2009

	<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 2009	44,937,600	20,560,422	12,863,271	(42,515,365)	62,522,924	-	98,368,852
Net profit for the year	-	-	-	-	9,786,500	-	9,786,500
Other comprehensive income for the year	-	-	-	16,629,691	-	-	16,629,691
Total comprehensive income for the year	-	-	-	16,629,691	9,786,500	-	26,416,191
Transfers	-	978,650	978,650	-	(1,957,300)	-	-
Directors' fees	-	-	-	-	(150,000)	-	(150,000)
Balance at 31 December 2009	44,937,600	21,539,072	13,841,921	(25,885,674)	70,202,124	-	124,635,043

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

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

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

STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2009

	<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 2008	44,937,600	20,500,585	12,803,434	191,549,409	62,044,225	8,987,520	340,822,773
Net profit for the year	-	-	-	-	598,373	-	598,373
Other comprehensive income for the year	-	-	-	(234,064,774)	-	-	(234,064,774)
Total comprehensive income for the year	-	-	-	(234,064,774)	598,373	-	(233,466,401)
Transfers	-	59,837	59,837	-	(119,674)	-	-
Cash dividends paid – 2007	-	-	-	-	-	(8,987,520)	(8,987,520)
Balance at 31 December 2008	44,937,600	20,560,422	12,863,271	(42,515,365)	62,522,924	-	98,368,852

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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.

The Bank is a subsidiary of Al Futtaim Private Company LLC which holds 50.26% of the shares in the Bank.

2 BASIS OF PREPARATION

Accounting convention

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

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.

New accounting Standards and Interpretations:

The Bank has adopted the following new and amended IFRS and IFRIC Interpretations during the year:

- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements effective 1 January 2009
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 15 Agreement for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009, early adopted)

Adoption of the above Standards and Interpretations did not have an impact on the Bank's financial statements except in case of the following:

IFRS 7 Financial Instruments: Disclosures effective 1 January 2009

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 11. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 21.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

2 BASIS OF PREPARATION (continued)

New accounting Standards and Interpretations (continued):

IFRS 8 Operating Segments effective 1 January 2009

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Bank concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 22, including the related comparative information.

IAS 1 Presentation of Financial Statements effective 1 January 2009

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present two statements.

IASB Standards and Interpretations issued but not adopted

The following amendments to IASB Standards and Interpretations which have been issued as of the date of the statement of financial position, have not yet been adopted by the Bank as these are effective from future dates:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements effective for financial years beginning on or after 1 July 2009
- IFRS 9 Financial Instruments effective 1 January 2013 effective for financial years beginning on or after 1 July 2009
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective for financial years beginning on or after 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective for financial years beginning on or after 1 July 2009
- IFRIC 18 Transfer of Assets from Customers effective for financial years beginning on or after 1 July 2009

Future adoption of the above Standards and Interpretations is not expected to have an impact on the Bank's financial statements except in case of the following:

IFRS 9 Financial Instruments

The new Standard is issued by the IASB in November 2009 and becomes effective for financial years beginning on or after 1 January 2013 with early application permitted. This Standard establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The aim of this Standard is to replace IAS 39: *Financial Instruments: Recognition and Measurement* in its entirety through the following phases:

Phase 1: Classification and Measurement

Phase 2: Impairment Methodology

Phase 3: Hedge accounting

The future application of this Standard will result in changes in the way financial instruments are classified and measured.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

2 BASIS OF PREPARATION (continued)

Significant management judgements and estimates

Judgements

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

Classification of investments:

Management decides upon acquisition of an investment whether it should be classified as investments carried at fair value through profit or loss or available for sale.

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.

The above classification requires management's judgement.

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. Estimates for impairment losses on loans and advances take into account 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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 other interest bearing financial instruments including 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 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 income in the income statement and the losses arising on impairment of such loans and advances are also recognised in the income statement.

Investments

Investments are classified as follows:

- Investments at fair value through profit or loss;
- Available for sale

All securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition.

Investments at Fair Value Through Profit or Loss ("FVTPL")

This category has two sub-categories:

- investment securities held for trading, and;
- those designated at fair value through profit or loss at inception. Investments at fair value through profit or loss.

An investment security is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

Investment securities are designated as at FVTPL in the following circumstances:

- Doing so eliminates or significantly reduces measurement or recognition inconsistencies that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
- They are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

Available for sale

Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances.

Initial recognition

All investment securities are initially recognised at fair value plus, except for investments at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of such investment.

Subsequent measurement

After initial recognition, investments at fair value through profit or loss are remeasured at fair value. Fair value changes in respect of these investments are taken to the income statement.

After initial recognition, available for sale investments are remeasured at fair value except unquoted equity investments whose fair value cannot be reliably determined in which case they are measured at cost less accumulated impairment. Fair value changes 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 year.

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 Bank's 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 expired. 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 income statement.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)

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 or derived using other accepted valuation models.

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 accumulated impairment in value.

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

Furniture and equipment	over 4 years
Motor vehicles	over 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.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

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.

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 unamortised 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. 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.

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

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At 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position.

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.

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 received from or 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.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not recognised in the statement of financial position.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported on the statement of financial position 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 on the statement of financial position.

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 statement of financial position date. Any resultant gains and losses are taken to the income statement.

Segment reporting

The Bank's reporting is based on the following operating segments: Development banking and Investment banking.

4 NET INCOME FROM INVESTMENTS

	2009 AED	2008 AED
Net (loss) / gain on sale of investments carried at fair value through profit or loss	(15,192)	182,961
Gain on sale of available for sale investments	14,416,128	84,910,017
Unrealised loss on revaluation of investments carried at fair value through profit or loss	-	(3,703,002)
Dividend income	10,470,715	11,024,533
Other income	9,510,834	4,672,628
	<u>34,382,485</u>	<u>97,087,137</u>

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

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5 OTHER INCOME

	<i>2009</i> <i>AED</i>	<i>2008</i> <i>AED</i>
Portfolio management fee	699,018	720,732
Fees, commission and other income	3,184,447	285,902
	<u>3,883,465</u>	<u>1,006,634</u>

6 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2009</i> <i>AED</i>	<i>2008</i> <i>AED</i>
Staff costs	6,152,281	6,070,179
Depreciation	771,539	342,475
Rental costs – operating leases	1,873,612	1,258,847
Consultancy charges	393,544	2,411,860
Others	2,041,877	1,361,673
	<u>11,232,853</u>	<u>11,445,034</u>

7 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year, net of directors' fees, of AED 9,636,500 (2008: AED 598,373) by the weighted average number of shares outstanding during the year of 449,376 of AED 100 each (2008: 449,376 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>2009</i> <i>AED</i>	<i>2008</i> <i>AED</i>
Cash in hand	23,560	24,311
Balances with UAE Central Bank:		
Current account	3,303,785	1,016,937
Reserve requirements	3,454,809	2,021,999
	<u>6,782,154</u>	<u>3,063,247</u>

The reserve requirements are kept with the 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 UAE Central Bank directives.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

9 DUE FROM BANKS

	2009 AED	2008 AED
Domestic	89,991,990	32,937,697
Regional	51	74,715
International	6,328,147	5,497,102
	<u>96,320,188</u>	<u>38,509,514</u>

Included in due from banks is a term deposit of AED 59,000,000 (2008: 24,000,000) with a counter party in UAE. This deposit has been liened to the extent of AED 39,000,000 (2008: AED 22,800,000) against facilities granted by the counter party to the Bank.

10 LOANS AND ADVANCES

	2009 AED	2008 AED
Commercial and business:		
Loans (secured)	2,356,678	2,510,584
Overdrafts / loans (unsecured)	4,901,072	15,134,592
	<u>7,257,750</u>	<u>17,645,176</u>

At 31 December 2009, 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 (2008: Nil). Bank's loans and advances comprise amounts provided to customers within the UAE (2008: 100%).

The Bank has also concluded that there is no need for any collective impairment provision at 31 December 2009 (2008: Nil)

11 INVESTMENTS

	2009 AED	2008 AED
<i>Equity investments carried at fair value through profit or loss</i>	-	1,658,690
<i>Available for sale investments</i>		
<i>Debt</i>		
Quoted	331,798,530	48,100,216
<i>Equity</i>		
Quoted	157,395,435	206,812,788
Unquoted	44,771,059	50,853,734
	<u>202,166,494</u>	<u>257,666,522</u>
Total available for sale investments	<u>533,965,024</u>	<u>305,766,738</u>
Total investments	<u>533,965,024</u>	<u>307,425,428</u>

Quoted equities with a carrying value of AED 51,749,280 at 31 December 2009 (2008: AED 38,929,572) were registered in the names of certain shareholders' and third parties who are holding these shares in trust on behalf of the Bank.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

11 INVESTMENTS (continued)

	2009 AED	2008 AED
Equity investments:		
Domestic	144,068,537	173,597,476
Regional	22,047,006	41,488,362
International	36,050,951	44,239,374
	<u>202,166,494</u>	<u>259,325,212</u>
Debt investments:		
Domestic	297,448,250	13,496,558
Regional	15,331,916	4,341,623
International	19,018,364	30,262,035
	<u>331,798,530</u>	<u>48,100,216</u>
	<u>533,965,024</u>	<u>307,425,428</u>

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2009, the Bank held the following investments measured at fair value:

	31 December 2009 AED	Investments carried at fair value			Investments carried at cost AED
		Level 1 AED	Level 2 AED	Level 3 AED	
Equity investments:					
Domestic	144,068,537	117,996,360	20,547,835	1,444,934	4,079,408
Regional	22,047,006	7,645,880	10,565,339	-	3,835,787
International	36,050,951	3,430,568	26,852,875	-	5,767,508
Debt investments:					
Domestic	297,448,250	297,448,250	-	-	-
Regional	15,331,916	15,331,916	-	-	-
International	19,018,364	19,018,364	-	-	-
	<u>533,965,024</u>	<u>460,871,338</u>	<u>57,966,049</u>	<u>1,444,934</u>	<u>13,682,703</u>

During the current year, investments amounting to AED 13,910,425 were transferred from Level 1 to Level 2 fair value measurements while an amount of AED 375,175 was transferred from Level 2 to Level 1 fair value measurements.

The transfers from Level 1 to Level 2 were made as during the year there was no active market for certain securities while transfers from Level 2 to Level 1 were made as the market in respect of these securities was considered to be active again during the year.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

11 INVESTMENTS (continued)

The following table shows a reconciliation of the opening and closing amounts of level 3 investments recorded at fair value:

	<i>2009 AED</i>
At 1 January 2009	4,353,071
Total net unrealised gain recorded in equity	380,792
Impairment loss on Level 3 investments	(720,688)
Transfer to Level 2	(2,568,241)
At 31 December 2009	<u>1,444,934</u>

During the current year, an impairment loss of AED 720,688 has been recognised in the income statement in respect of investments classified as Level 3.

Transfer of investment from Level 3 to Level 2 was made due to the change in valuation basis now being based on observable market data.

12 PROPERTY AND EQUIPMENT

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2009	3,639,448	113,350	3,752,798
Additions during the year	92,168	-	92,168
Disposals during the year	(290,053)	-	(290,053)
At 31 December 2009	<u>3,441,563</u>	<u>113,350</u>	<u>3,554,913</u>
Accumulated depreciation:			
At 1 January 2009	861,454	106,950	968,404
Charge for the year	765,139	6,400	771,539
Relating to disposals	(288,911)	-	(288,911)
At 31 December 2009	<u>1,337,682</u>	<u>113,350</u>	<u>1,451,032</u>
Net carrying values:			
At 31 December 2009	<u>2,103,881</u>	<u>-</u>	<u>2,103,881</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

12 PROPERTY AND EQUIPMENT (continued)

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2008	762,134	328,250	1,090,384
Additions during the year	2,991,403	193,830	3,185,233
Disposals during the year	(114,089)	(408,730)	(522,819)
At 31 December 2008	3,639,448	113,350	3,752,798
Accumulated depreciation:			
At 1 January 2008	674,135	262,338	936,473
Charge for the year	257,096	85,379	342,475
Relating to disposals	(69,777)	(240,767)	(310,544)
At 31 December 2008	861,454	106,950	968,404
Net carrying values:			
At 31 December 2008	2,777,994	6,400	2,784,394

13 OTHER ASSETS

	<i>2009 AED</i>	<i>2008 AED</i>
Interest receivable	5,528,576	2,196,218
Other receivables and prepayments	2,538,460	3,218,127
	<u>8,067,036</u>	<u>5,414,345</u>

14 OTHER LIABILITIES

	<i>2009 AED</i>	<i>2008 AED</i>
Interest payable	4,426,918	852,539
Employees' end of service benefits	610,166	472,595
Others	6,575,804	5,904,224
	<u>11,612,888</u>	<u>7,229,358</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 on the statement of financial position in respect of end of service benefits are as follows:

	<i>2009 AED</i>	<i>2008 AED</i>
Liability as at 1 January	472,595	530,382
Expense recognised in the income statement	138,804	214,392
Amount paid during the year	(1,233)	(272,179)
Liability as at 31 December	<u>610,166</u>	<u>472,595</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

15 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2008: 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 (2008: 449,376 ordinary shares of AED 100 each).

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 CUMULATIVE CHANGES IN FAIR VALUES

	2009 AED	2008 AED
<i>Available for sale investments</i>		
At 1 January	(42,515,365)	191,549,409
Net unrealised gain / (loss) during the year	23,716,359	(225,558,555)
Impairment of available for sale investments	7,329,460	76,403,798
Net realised gain transferred to income statement on disposal	(14,416,128)	(84,910,017)
At 31 December	(25,885,674)	(42,515,365)

17 DIVIDENDS PAID AND PROPOSED

Cash dividends of AED 20 per share totalling AED 8,987,520 relating to the year 2007 were declared and paid during the year ended 31 December 2008. No dividend has been declared or paid during the current year.

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.

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. All of the Bank's derivative contracts are entered into with other financial institutions.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

18 DERIVATIVES (continued)

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 the Bank's overall exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as derivatives.

As at 31 December 2009, the Bank did not have any outstanding forward foreign exchange contracts (2008:Nil).

19 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments and contingent liabilities

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.

The Bank has the following credit related commitments:

	2009 AED	2008 AED
Letters of credit and acceptances	-	1,758,074
Guarantees	116,849,070	7,956,070
	<u>116,849,070</u>	<u>9,714,144</u>

Other commitments:

The Bank has commitments totalling to AED 2,023,397 (2008: AED 6,387,168) 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:

	2009 AED	2008 AED
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	71,756	3,818,496
Customers' deposits	234,209,228	17,533,564
Commitments and contingencies	101,820,320	1,499,320

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

20 RELATED PARTY TRANSACTIONS (continued)

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

	2009 AED	2008 AED
<i>Directors, their related parties and key management personnel:</i>		
Interest income	35,314	545,755
Interest expense	2,610,776	2,817,124
Commission and fees	676,881	96,145
Rental costs – operating leases	1,578,750	849,450
<i>Parent company:</i>		
Cost of investments sold	-	45,008,176
Purchase of investments	-	118,535,614
Compensation of key management personnel:		
	2009 AED	2008 AED
Salaries and other benefits	<u>4,266,287</u>	<u>2,747,439</u>

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.

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 other risk related matters 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 bi-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 Chief Executive Officer.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 RISK MANAGEMENT (continued)

Risk management structure (continued)

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. The Bank also constantly monitor their portfolio and diversify it in order to mitigate risk in relation to concentration of exposure towards a particular business or geographical segment.

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.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 RISK MANAGEMENT (continued)

Credit risk (continued)

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, if any.

	Notes	Gross maximum exposure 2009 AED	Gross maximum exposure 2008 AED
Balances with UAE Central Bank (excluding cash on hand)	8	6,758,594	3,038,936
Due from banks	9	96,320,188	38,509,514
Loans and advances	10	7,257,750	17,645,176
Investments in debt instruments	11	331,798,530	48,100,216
Other assets		7,660,985	4,414,039
		<u>449,796,047</u>	<u>111,707,881</u>
Letters of credit and acceptances	19	-	1,758,074
Guarantees	19	116,849,070	7,956,070
		<u>116,849,070</u>	<u>9,714,144</u>
Total credit risk exposure		<u>566,645,117</u>	<u>121,422,025</u>

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 2009 was AED 59,000,000 (2008: AED 24,000,000) before taking account of collateral or other credit enhancements and AED 59,000,000 (2008: AED 24,000,000) net of such protection.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 RISK MANAGEMENT (continued)

Credit risk (continued)

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

	2009			2008		
	<i>Assets</i>	<i>Liabilities</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities</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	555,013,869	529,860,990	116,849,070	247,639,891	276,473,252	9,714,144
North America	21,713,844	-	-	48,674,265	-	-
Latin America	4,045,132	-	-	3,901,325	-	-
Europe	16,074,538	-	-	11,334,317	-	-
Asia Pacific	13,429,831	-	-	22,739,958	-	-
GCC & other ME	44,218,819	-	-	40,552,348	-	-
	<u>654,496,033</u>	<u>529,860,990</u>	<u>116,849,070</u>	<u>374,842,104</u>	<u>276,473,252</u>	<u>9,714,144</u>

An industry sector analysis of the Bank's financial assets (excluding cash in hand and investments in equity securities) including contingent liabilities, before taking into account collateral held or other credit enhancements, is as follows:

	2009	2008
	<i>AED</i>	<i>AED</i>
Commercial and business	219,022,706	55,959,817
Banks and financial institutions	114,640,615	45,025,770
Government entities	232,776,160	20,190,844
Others	205,636	245,594
	<u>566,645,117</u>	<u>121,422,025</u>

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 investment 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.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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 lines of statement of financial position, based on the Bank's internal credit rating system.

	<i>Neither past due nor impaired</i>			
	<i>High grade 2009 AED</i>	<i>Standard grade 2009 AED</i>	<i>Sub- standard grade 2009 AED</i>	<i>Total 2009 AED</i>
Due from banks	96,320,188	-	-	96,320,188
Loans and advances	1,530,982	3,305,538	-	4,836,520
Investments in debt instruments	273,883,210	25,486,549	32,428,771	331,798,530
	<u>371,734,380</u>	<u>28,792,087</u>	<u>32,428,771</u>	<u>432,955,238</u>

	<i>Neither past due nor impaired</i>			
	<i>High grade 2008 AED</i>	<i>Standard grade 2008 AED</i>	<i>Sub- standard grade 2008 AED</i>	<i>Total 2008 AED</i>
Due from banks	38,509,514	-	-	38,509,514
Loans and advances	-	12,645,176	-	12,645,176
Investments in debt instruments	15,663,842	13,726,838	18,709,536	48,100,216
	<u>54,173,356</u>	<u>26,372,014</u>	<u>18,709,536</u>	<u>99,254,906</u>

As at the year end, the Bank has an amount of AED 2,421,230 (2008: AED 5,000,000) in loans and advances which was past due however, the management believes that it was not impaired.

Credit risk exposure of the Bank's financial assets (excluding cash in hand and instruments in equity instruments) including contingent liabilities for each internal risk rating

	<i>Moody's equivalent grades</i>	<i>Total 2009 AED</i>	<i>Total 2008 AED</i>
Prime grade	Aaa	309,156,844	18,533,988
High grade	Aa1-Aa3	69,336,130	38,678,304
Standard grade	Baa-Baa3	155,723,372	40,500,197
Sub-standard grade	Ba-B3	32,219,983	23,503,042
Impaired	C	208,788	206,494
		<u>566,645,117</u>	<u>121,422,025</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 RISK MANAGEMENT (continued)

Credit risk (continued)

It is the Bank's 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 2009

21 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturities of assets and liabilities at the date of statement of financial position are set out in the table below based on the remaining period 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.

31 December 2009	Less than 3 months AED	From 3 months to 6 months AED	From 6 months to 12 months AED	Sub total less than 12 months AED	1-5 years AED	Over 5 years AED	Sub total over 12 months AED	Undated AED	Total AED
ASSETS									
Cash and balances with UAE Central Bank	6,782,154	-	-	6,782,154	-	-	-	-	6,782,154
Due from banks	57,320,188	39,000,000	-	96,320,188	-	-	-	-	96,320,188
Loans and advances	7,257,750	-	-	7,257,750	-	-	-	-	7,257,750
Investments	-	9,238,000	1,449,166	10,687,166	280,400,527	40,710,837	321,111,364	202,166,494	533,965,024
Property and equipment	-	-	-	-	-	-	-	2,103,881	2,103,881
Other assets	8,067,036	-	-	8,067,036	-	-	-	-	8,067,036
Total assets	79,427,128	48,238,000	1,449,166	129,114,294	280,400,527	40,710,837	321,111,364	204,270,375	654,496,033
LIABILITIES AND EQUITY									
Due to banks	23,000,000	-	-	23,000,000	-	-	-	-	23,000,000
Customer deposits	324,222,186	122,411,836	48,614,080	495,248,102	-	-	-	-	495,248,102
Other liabilities	11,612,888	-	-	11,612,888	-	-	-	-	11,612,888
Equity	-	-	-	-	-	-	-	124,635,043	124,635,043
Total liabilities and equity	358,835,074	122,411,836	48,614,080	529,860,990	-	-	-	124,635,043	654,496,033
Net liquidity gap	(279,407,946)	(74,173,836)	(47,164,914)	(400,746,696)	280,400,527	40,710,837	321,111,364	79,635,332	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 RISK MANAGEMENT (continued)

Liquidity risk (continued)

<i>31 December 2008</i>	<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>
ASSETS									
Cash and balances with UAE Central Bank	3,063,247	-	-	3,063,247	-	-	-	-	3,063,247
Due from banks	14,509,514	24,000,000	-	38,509,514	-	-	-	-	38,509,514
Loans and advances	17,645,176	-	-	17,645,176	-	-	-	-	17,645,176
Investments	4,710,579	-	2,770,898	7,481,477	17,706,764	22,911,975	40,618,739	259,325,212	307,425,428
Property and equipment	-	-	-	-	-	-	-	2,784,394	2,784,394
Other assets	5,414,345	-	-	5,414,345	-	-	-	-	5,414,345
Total assets	45,342,861	24,000,000	2,770,898	72,113,759	17,706,764	22,911,975	40,618,739	262,109,606	374,842,104
LIABILITIES AND EQUITY									
Due to banks	90,000,000	-	-	90,000,000	-	-	-	-	90,000,000
Customer deposits	161,828,605	3,122,078	14,293,211	179,243,894	-	-	-	-	179,243,894
Other liabilities	7,229,358	-	-	7,229,358	-	-	-	-	7,229,358
Equity	-	-	-	-	-	-	-	98,368,852	98,368,852
Total liabilities and equity	259,057,963	3,122,078	14,293,211	276,473,252	-	-	-	98,368,852	374,842,104
Net liquidity gap	(213,715,102)	20,877,922	(11,522,313)	(204,359,493)	17,706,764	22,911,975	40,618,739	163,740,754	

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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 the year-end 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 based on Bank's deposit retention history.

	<i>On demand AED</i>	<i>Less than 3 months AED</i>	<i>3 to 12 months AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>
2009						
Due to banks	-	23,012,817	-	-	-	23,012,817
Customer deposits	26,998,659	234,852,307	237,811,237	-	-	499,662,203
Other liabilities	11,002,722	-	-	-	-	11,002,722
Total undiscounted financial liabilities	38,001,381	257,865,124	237,811,237	-	-	533,677,742
2008						
Due to banks	-	90,136,000	-	-	-	90,136,000
Customer deposits	18,599,977	143,899,102	17,484,965	-	-	179,984,044
Other liabilities	6,756,763	-	-	-	-	6,756,763
Total undiscounted financial liabilities	25,356,740	234,035,102	17,484,965	-	-	276,876,807

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

	<i>On demand AED</i>	<i>Less than 3 months AED</i>	<i>3 to 12 months AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>
2009						
Contingent liabilities	-	-	116,849,070	-	-	116,849,070
2008						
Contingent liabilities	2,491,070	1,858,074	5,365,000	-	-	9,714,144

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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.

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 of interest rate repricing of assets and liabilities. The Board has established levels of interest rate risk by setting interest rate sensitivity 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 income statement and equity.

<i>Increase in basis points</i>	<i>Impact on net profit 2009 AED</i>	<i>Impact on equity 2009 AED</i>	<i>Impact on net profit 2008 AED</i>	<i>Impact on equity 2008 AED</i>
100	(2,612,423)	(7,751,762)	(2,097,880)	(1,296,451)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year based on the floating rate financial assets and financial liabilities held at the year end. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year-end for the effect of assumed changes in interest rates. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve.

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 year-end on its non trading monetary assets and liabilities and their 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.

	<i>Change in currency rate in % 2009</i>	<i>Effect on equity 2009 AED</i>	<i>Change in currency rate in % 2008</i>	<i>Effect on equity 2008 AED</i>
Currency				
Pakistan Rupees	+10	10,739	+10	7,942
Euro	+10	907,686	+10	1,108,596
Pound Sterling	+10	760,550	+10	92,794
Danish Kroner	+10	2,873	+10	7,138

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

21 RISK MANAGEMENT (continued)

Currency risk (continued)

Since UAE Dirham is on a fixed parity to the US Dollar therefore the management believes that presently the Bank is not exposed to any significant foreign currency risk in respect of US Dollar.

Equity price risk

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

The effect on equity due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>Change in equity price 2009 %</i>	<i>Effect on equity 2009 AED</i>	<i>Change in equity price 2008 %</i>	<i>Effect on equity 2008 AED</i>
New York Stock Exchange	+10	335,020	+10	599,106
Abu Dhabi Securities Market	+10	8,476,969	+10	8,423,644
Dubai Financial Market	+10	5,376,992	+10	6,492,393
Others	+10	1,550,562	+10	4,581,213

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

22 SEGMENTAL ANALYSIS

For operating purposes, the Bank is organised into two major business segments: Development Banking, which principally provides loans and other credit facilities and deposit and current accounts for corporate and individual customers and Investment Banking, which involves the management of the Bank's own investment portfolio and treasury services and providing investment portfolio management services. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

Management monitors the operating results of the operating segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Interest income, net income from investment, other income and exchange (loss) / gain less impairment loss on investments	7,195,255	1,237,688	27,752,043	21,108,577	34,947,298	22,346,265
Inter-segment adjustment	15,149,915	8,656,143	(15,149,915)	(8,656,143)	-	-
	<u>22,345,170</u>	<u>9,893,831</u>	<u>12,602,128</u>	<u>12,452,434</u>	<u>34,947,298</u>	<u>22,346,265</u>
Net profit for the year	<u>6,414,832</u>	<u>(2,413,956)</u>	<u>3,371,668</u>	<u>3,012,329</u>	<u>9,786,500</u>	<u>598,373</u>
	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Segment assets	116,613,648	65,356,378	537,882,385	309,485,726	654,496,033	374,842,104
Segment liabilities	529,860,990	276,623,252	-	-	529,860,990	276,473,252

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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 values of the financial instruments appearing in the statement of financial position of the Bank are not materially different from their carrying values 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.

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

31 December 2009	<i>At fair value through profit or loss AED</i>	<i>Available for sale AED</i>	<i>Loans and receivables AED</i>	<i>Amortised cost AED</i>	<i>Total AED</i>
Financial assets					
Cash and balances with					
UAE Central Bank	-	-	-	6,782,154	6,782,154
Due from banks	-	-	-	96,320,188	96,320,188
Loans and advances	-	-	7,257,750	-	7,257,750
Investments	-	533,965,024	-	-	533,965,024
Others	-	-	-	7,660,985	7,660,985
	<u>-</u>	<u>533,965,024</u>	<u>7,257,750</u>	<u>110,763,327</u>	<u>651,986,101</u>
Financial liabilities					
Due to banks	-	-	-	23,000,000	23,000,000
Customer deposits	-	-	-	495,248,102	495,248,102
Others	-	-	-	11,002,722	11,002,722
	<u>-</u>	<u>-</u>	<u>-</u>	<u>529,250,824</u>	<u>529,250,824</u>
31 December 2008					
	<i>At fair value through profit or loss AED</i>	<i>Available for sale AED</i>	<i>Loans and receivables AED</i>	<i>Amortised cost AED</i>	<i>Total AED</i>
Financial assets					
Cash and balances with					
UAE Central Bank	-	-	-	3,063,247	3,063,247
Due from banks	-	-	-	38,509,514	38,509,514
Loans and advances	-	-	17,645,176	-	17,645,176
Investments	1,658,690	305,766,738	-	-	307,425,428
Others	-	-	-	4,414,039	4,414,039
	<u>1,658,690</u>	<u>305,766,738</u>	<u>17,645,176</u>	<u>45,986,800</u>	<u>371,057,404</u>
Financial liabilities					
Due to banks	-	-	-	90,000,000	90,000,000
Customer deposits	-	-	-	179,243,894	179,243,894
Others	-	-	-	6,756,763	6,756,763
	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,000,657</u>	<u>276,000,657</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

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>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	225,910,844	10,179,797	-	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	413,513,202	341,328,974	336,457,052	310,521,363
Claims at 100%	15,071,987	23,333,333	15,071,987	23,333,333
	<u>654,496,033</u>	<u>374,842,104</u>	<u>351,529,039</u>	<u>333,854,696</u>
Off balance sheet items (note 19)				
Letters of credit and acceptances	-	1,758,074	-	351,615
Letters of guarantee	103,310,070	7,956,070	103,310,070	7,956,070
Credit risk weighted assets and off balance sheet items			454,839,109	342,162,381
Market risk weighted assets and off balance sheet items			-	-
Total risk weighted assets			<u>454,839,109</u>	<u>342,162,381</u>
Risk asset ratio			<u>27.40%</u>	<u>28.75%</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2009

24 CAPITAL ADEQUACY (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings (including current year profit), and legal and special reserves. 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.

25 FIDUCIARY ASSETS

	<i>2009</i> <i>AED</i>	<i>2008</i> <i>AED</i>
Balance as at 31 December	<u>199,775,282</u>	<u>48,237,305</u>

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.