

**NATIONAL BANK OF UMM AL-QAIWAIN (PSC)
AND SUBSIDIARY
UMM AL-QAIWAIN - UNITED ARAB EMIRATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2007**

**National Bank of Umm Al-Qaiwain (psc) and Subsidiary
Umm Al-Qaiwain - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2007**

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Independent Auditor's Report

The Shareholders

National Bank of Umm Al-Qaiwain (psc) and Subsidiary

Umm Al-Qaiwain

United Arab Emirates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **National Bank of Umm Al-Qaiwain (psc) (the 'Bank') and Subsidiary (together the 'Group')**, Umm Al-Qaiwain, United Arab Emirates which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements as of December 31, 2006, were audited by another auditor whose report dated January 30, 2007, on which we have relied, expressed an unqualified opinion on those statements.

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. 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.

Auditor's 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 auditor's 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 Group'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 Group'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.

Independent Auditor's Report (continued)*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, U.A.E. Union Law No. 10 of 1980, as amended, or the Articles of Association of the Group which might have materially affected the financial position of the Group or its financial performance.

For Deloitte & Touche**Sharjah**
January 30, 2008**Saba Y. Sindaha**
Partner
(Registration No. 410)

Consolidated Balance Sheet
At December 31, 2007
(In Thousand Arab Emirates Dirhams)

	Notes	December 31, <u>2007</u>	December 31, <u>2006</u>
Assets			
Cash and balances with the UAE Central Bank	5	2,673,011	237,626
Due from other banks	6	148,817	68,345
Loans and advances	7	4,929,223	4,123,047
Investment securities	8	386,585	350,523
Customers' acceptances		129,115	236,323
Property and equipment	9	103,516	105,460
Other assets	10	58,784	46,866
Total assets		8,429,051	5,168,190
Liabilities			
Due to other banks	11	1,925,741	797,615
Customers' deposits	12	4,532,682	2,632,121
Customers' acceptances		129,115	236,323
Other liabilities	13	118,775	87,807
Total liabilities		6,706,313	3,753,866
Shareholders' equity			
Share capital	14	660,000	600,000
Statutory reserve	15	524,266	524,266
General reserve	16	6,440	6,440
Cumulative change in fair values		24,045	(10,599)
Retained earnings		507,987	294,217
Total shareholders' equity		1,722,738	1,414,324
Total liabilities and shareholders' equity		8,429,051	5,168,190
Commitments and contingent liabilities	17	6,733,724	3,640,469

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

Saud Bin Rashid Al - Mo'alla
Chairman

Nasser Bin Rashid Al - Mo'alla
Managing Director and
Chief Executive Officer

Consolidated Income Statement
For the year ended December 31, 2007
(In Thousand Arab Emirates Dirhams)

	Notes	Year ended December 31, <u>2007</u>	Year ended December 31, <u>2006</u>
Interest income	18	425,814	280,745
Interest expense	18	(139,260)	(68,912)
Net interest income		286,554	211,833
Fee and commission income		52,651	25,067
Investment revenue/(losses)	19	116,172	(74,299)
Other operating income	20	<u>29,819</u>	<u>12,533</u>
Operating income		485,196	175,134
Operating expenses	21	(112,014)	(67,549)
Provision for impairment of loans and advances net of release	7	(39,412)	(19,627)
Profit for the year		333,770	87,958
Basic earnings per share (in AED)	23	0.51	0.13

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

**National Bank of Umm Al-Qaiwain (psc) and Subsidiary
Umm Al-Qaiwain - United Arab Emirates**

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**Consolidated Statement of Changes in Equity
For the year ended December 31, 2007
(In Thousand Arab Emirates Dirhams)**

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Cumulative change in fair values</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2005	500,000	524,266	6,440	-	356,259	1,386,965
Profit for the year	-	-	-	-	87,958	87,958
Loss on investment securities available-for-sale recognised directly in equity	-	-	-	(10,599)	-	(10,599)
Total recognised income and expenses for the year	-	-	-	(10,599)	87,958	77,359
Bonus shares issued during the year (Note 14)	100,000	-	-	-	(100,000)	-
Dividend	-	-	-	-	(50,000)	(50,000)
	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>	<u>(50,000)</u>
Balance at December 31, 2006	600,000	524,266	6,440	(10,599)	294,217	1,414,324
Profit for the year	-	-	-	-	333,770	333,770
Gain on investment securities available-for-sale recognised directly in equity	-	-	-	24,427	-	24,427
Transfer to profit or loss on sale of investment securities available-for-sale	-	-	-	(4,718)	-	(4,718)
Impairment losses on investment securities available-for- sale	-	-	-	14,935	-	14,935
Total recognised income and expenses for the year	-	-	-	34,644	333,770	368,414
Bonus shares issued during the year (Note 14)	60,000	-	-	-	(60,000)	-
Dividend (Note 24)	-	-	-	-	(60,000)	(60,000)
	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(120,000)</u>	<u>(60,000)</u>
Balance at December 31, 2007	<u>660,000</u>	<u>524,266</u>	<u>6,440</u>	<u>24,045</u>	<u>507,987</u>	<u>1,722,738</u>

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

**Consolidated Cash Flow Statement
For the year ended December 31, 2007
(In Thousand Arab Emirates Dirhams)**

	Year ended December 31, 2007	Year ended December 31, 2006
Operating activities		
Profit for the year	333,770	87,958
Adjustments:		
Provision for loan impairment - net	39,412	19,627
Depreciation for property and equipment	11,728	8,301
(Increase)/decrease in fair value of investment securities at fair value through profit and loss - held for trading	(105,070)	75,853
(Gain)/loss on sale of investment in securities	(14,774)	59
Impairment losses on investment securities available-for- sale	14,935	-
Dividend income	(11,263)	(1,613)
Loss on disposal of property and equipment	<u>128</u>	<u>10</u>
Operating cash flows before movements in working capital	268,866	190,195
Syndication loans to banks abroad	(27,548)	-
Increase in statutory deposit with the UAE Central Bank	(52,974)	(20,959)
Increase in loans and advances net of provision and amounts written off	(845,588)	(1,524,055)
Increase in other assets	(11,918)	(26,153)
Increase in due to other banks	1,128,126	551,732
Increase in customers' deposits	1,900,561	540,974
Increase in other liabilities	<u>29,889</u>	<u>39,490</u>
Net cash from/(used in) operating activities	<u>2,389,414</u>	<u>(248,776)</u>
Investing activities		
Purchase of property and equipment	(10,464)	(23,749)
Proceeds from sale of property and equipment	552	68
Purchase of investment in securities	(76,059)	(71,477)
Proceeds from sale of investment in securities	179,550	9,314
Dividend received	<u>11,263</u>	<u>1,613</u>
Net cash from/(used in) investing activities	<u>104,842</u>	<u>(84,231)</u>
Financing activities		
Dividend paid	(58,921)	(49,568)
Cash used in financing activities	<u>(58,921)</u>	<u>(49,568)</u>
Net increase/(decrease) in cash and cash equivalents	2,435,335	(382,575)
Cash and cash equivalents, at the beginning of the year	<u>202,574</u>	<u>585,149</u>
Cash and cash equivalents, at the end of the year	<u>2,637,909</u>	<u>202,574</u>
(Note 26)		

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

**Notes to the Consolidated Financial Statements
For the year ended December 31, 2007**

1. General information

National Bank of Umm Al-Qaiwain (psc) (the “Bank”) is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain (“UAQ”) in the United Arab Emirates (“UAE”) by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The “Group” comprises National Bank of Umm Al-Qaiwain (psc), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3). The address of the Bank’s registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Bank is engaged in providing retail and corporate banking services through a network of 14 branches in the UAE.

During the year 2007, the Bank has implemented Basel II and has complied with Standardised Approach for credit and market risks and the Basic Indicator Approach for operational risk. To comply with Basel II, the Bank has strengthened the applicable disclosures which are reflected in notes 30 and 35 to the consolidated financial statements.

2. Adoption of new and revised Standards

In the current year, the Bank has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Bank’s financial instruments and management of capital (see note 35). In accordance with the transitional requirements of the amendments, the Bank has provided full comparative information. Certain comparative amounts have been regrouped to conform to current year presentation.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economics*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Bank’s accounting policies.

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

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

2. Adoption of new and revised Standards (continued)

IAS 1 (Revised)	<i>Presentation of Financial Statements</i> (effective for accounting periods on or after January 1, 2009)
IAS 23 (Revised)	<i>Borrowing Costs</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> (effective for accounting periods beginning on or after July 1, 2009)
IAS 28 (Revised)	<i>Investments in Associates</i> (effective for accounting periods beginning on or after July 1, 2009)
IAS 31 (Revised)	<i>Interest in Joint Ventures</i> (effective for accounting periods beginning on or after July 1, 2009)
IAS 32 (Revised)	<i>Financial Instruments: Presentation</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRS 2 (Revised)	<i>Share-based Payment</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRS 3 (Revised)	<i>Business Combinations</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRS 8	<i>Operating Segments</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRIC 12	<i>Service Concession Arrangements</i> (effective for accounting periods beginning on or after January 1, 2008)
IFRIC 13	<i>Customer Loyalty Programmes</i> (effective for accounting periods beginning on or after July 1, 2008)
IFRIC 14	<i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction</i> (effective for accounting periods beginning on or after January 1, 2008)

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Group's financial statements for the period commencing January 1, 2008 or as and when applicable and that the adoption of those Standards and Interpretations will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Bank are expressed in Arab Emirates Dirhams, which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (psc) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiary:

Details of the Bank's subsidiary as at December 31, 2007 is as follows:

<u>Name of subsidiary</u>	<u>Proportion of ownership interest</u>	<u>Country of incorporation</u>	<u>Principal activity</u>
Twin Towns Marketing Management (L.L.C.)	99.5%	UAE	Marketing management

The remaining equity in the above subsidiary is held by the Bank beneficially through nominee arrangements.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It consists of cash and balances with the UAE Central Bank, due from other banks and loans and advances.

Loans and advances are recognised when cash is advanced to the borrowers and are carried at amortised cost using effective interest rate method.

Impairment of loans and advances

Individually assessed loans

Individually assessed loans represent mainly, corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms.

Impaired loans are measured on the basis of the present value of expected future cash flows including collateral if any and the impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows.

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

- a) Performing loans
- b) Small value loans with common features, which are not individually significant.

Performing loans

The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Small value loans with common features, which are not individually significant

Small value loans represent mainly credit card dues and other loans which are not individually significant in value. Impairment of such loans is assessed based on ageing analysis of each bucket and impairment losses provided accordingly.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of loans and advances (continued)

Re-ageing policy

The Bank has set out its re-ageing policy as part of the Credit Risk Policy. The Bank identifies forward shifting of past due date as re-ageing and complies with the Basel II guidelines on the re-ageing policy. This includes re-ageing criteria separately for normal and delinquent accounts, approval authorities, minimum age of the facility before it is eligible for re-ageing, maximum number of re-ageing per facility etc. Re-ageing is always considered based on reassessment of borrower's repayment capacity due to revised economic conditions.

Collateral pending sale

The Bank acquires real estate and other collateral in settlement of impaired loans and advances only if immediate sale is not feasible. The Bank's policy is to dispose of any such acquired real estate and other collateral at the earliest. The carrying value of such collateral is the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation, are recognised in the consolidated income statement.

Investment securities

The Bank classifies its investment securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of the investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when certain investments, such as equity investments, are managed and 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.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Financial assets (continued)

Investment securities (continued)

ii) *Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available-for-sale.

iii) *Available-for-sale*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

iv) *Initial recognition*

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement.

v) *Subsequent measurement*

Available for sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. Once the available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the consolidated income statement.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Financial assets (continued)

Investment securities (continued)

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as interest income. Dividends on equity instruments are recognised in the consolidated income statement when the Bank's right to receive payment is established.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on available-for-sale equity instruments are not reversed through the consolidated income statement.

Amortised cost of a financial asset/liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Financial liabilities and equity instruments

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

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities, including customer's deposits and due to other banks, are initially measured at fair value, net of transaction costs.

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

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of such assets to their estimated residual values over their expected useful economic lives as follows:

	<u>Years</u>
Buildings	20
Computers and equipment	1 - 5
Furniture and fixtures	5
Leasehold improvements	3 - 5
Motor vehicles	5

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Property and equipment (continued)

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated income statement when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the net selling price and value in use.

Employees' end of service benefits

Pension contributions are made in respect of UAE nationals to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-UAE nationals in accordance with the UAE Labour Law, for their periods of service up to the balance sheet date. This provision is included in other liabilities.

Management uses the projected unit credit method to measure the employees' end of service benefits payable under the UAE Labour law. Under this method an assessment is made of employee's expected service life with the Bank and the expected basic salary at the date of leaving the service. The expected liability at the date of leaving the service is discounted to its net present value.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Foreign currencies

Items included in the consolidated financial statements of the Bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Bank operates. Foreign currency transactions are translated into UAE Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the consolidated income statement.

Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated income statement.

Interest income and expense

Interest income and expense are recognised in the consolidated income statement for all financial instruments measured at amortised cost using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is effected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

3. Significant accounting policies (continued)

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the UAE Central Bank.

Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from services provided to external customers and whose revenue, results or assets are ten percent or more of all the segments, are reported separately.

4. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

In determining whether an impairment loss should be recorded in the consolidated income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

4. Critical accounting estimates and judgements (continued)

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Held- to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

5. Cash and balances with the UAE Central Bank

	December 31,	
	<u>2007</u>	<u>2006</u>
	AED'000	AED'000
Balances with the UAE Central Bank:		
Current account	81,110	36,334
Certificates of deposit	2,365,000	50,000
Statutory deposit	<u>156,371</u>	<u>103,397</u>
	2,602,481	189,731
Cash in hand	<u>70,530</u>	<u>47,895</u>
	<u><u>2,673,011</u></u>	<u><u>237,626</u></u>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

6. Due from other banks

	December 31,	
	<u>2007</u>	<u>2006</u>
	<u>AED'000</u>	<u>AED'000</u>
Term deposits	79,794	57,426
Demand deposits	41,475	10,919
Syndicated loans	<u>27,548</u>	<u>-</u>
	<u>148,817</u>	<u>68,345</u>
By geographical area		
Within the UAE	99,898	49,428
Outside the UAE	<u>48,919</u>	<u>18,917</u>
	<u>148,817</u>	<u>68,345</u>

7. Loans and advances

	December 31,	
	<u>2007</u>	<u>2006</u>
	<u>AED'000</u>	<u>AED'000</u>
Loans	3,007,363	2,618,074
Overdrafts	1,555,271	1,340,056
Loans against trust receipts	329,265	160,257
Others	<u>167,611</u>	<u>100,939</u>
Total loans and advances	5,059,510	4,219,326
Provision for impairment	<u>(130,287)</u>	<u>(96,279)</u>
Net loans and advances	<u>4,929,223</u>	<u>4,123,047</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

7. Loans and advances (continued)

The loans and advances of the Bank are all within the UAE.

Movement in provision for impairment

	2007		2006	
	Against specific loans and advances AED'000	Against risks inherent in the portfolio AED'000	Total AED'000	Total AED'000
At January 1,	51,641	44,638	96,279	87,225
Provision made during the year	51,924	10,872	62,796	28,987
Provision released during the year	(23,384)	-	(23,384)	(9,360)
Written off/utilised during the year	(5,404)	-	(5,404)	(10,573)
At December 31,	74,777	55,510	130,287	96,279

Net charge for provision for impairment

	Year ended December 31, 2007 AED'000	Year ended December 31, 2006 AED'000
Provision made during the year	62,796	28,987
Provision released during the year	(23,384)	(9,360)
	39,412	19,627

During the year, the Bank started classification of assets in compliance with Basel II guidelines and the non-performing loans as at December 31, 2007 amounted to AED 138.9 million (2006: AED 72.8 million). Provisions for impairment in relation to such loans amounted to AED 74.8 million as at December 31, 2007 (2006: AED 51.6 million).

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

8. Investment securities

	December 31,	
	<u>2007</u>	<u>2006</u>
	<u>AED'000</u>	<u>AED'000</u>
Securities at fair value through profit or loss - held for trading		
Quoted equity securities	70,785	67,261
Funds placed under management	<u>194,272</u>	<u>233,049</u>
	<u>265,057</u>	<u>300,310</u>
Securities available-for-sale		
Quoted equity securities	<u>58,760</u>	<u>33,589</u>
Securities held-to-maturity		
Quoted debt instruments	<u>62,768</u>	<u>16,624</u>
	<u>386,585</u>	<u>350,523</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

8. Investment securities (continued)

	<u>2007</u> AED'000	<u>2006</u> AED'000
Movement in investment securities:		
At the beginning of the year	350,523	374,871
Purchase of investment securities	76,059	71,477
Sale of investment securities	(169,494)	(9,373)
Net fair value gain/(loss) on investment securities at fair value through profit or loss - held for trading	105,070	(75,853)
Net fair value gain/(loss) on investment securities available-for-sale directly recognised in equity	<u>24,427</u>	<u>(10,599)</u>
At the end of the year	<u><u>386,585</u></u>	<u><u>350,523</u></u>

By geographical area

	<u>December 31,</u>	
	<u>2007</u> AED'000	<u>2006</u> AED'000
Within UAE	69,422	52,136
Outside UAE	<u>317,163</u>	<u>298,387</u>
	<u><u>386,585</u></u>	<u><u>350,523</u></u>

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

9. Property and equipment

	<u>Land and buildings</u> AED'000	<u>Computers and equipment</u> AED'000	<u>Furniture and fixtures</u> AED'000	<u>Leasehold improvements</u> AED'000	<u>Motor vehicles</u> AED'000	<u>Capital work in progress</u> AED'000	<u>Total</u> AED'000
<i>Cost</i>							
At December 31, 2005	73,396	30,116	2,670	5,459	1,279	23,956	136,876
Additions	5,465	5,397	645	1,284	144	10,814	23,749
Disposals	-	(1,164)	(688)	(2,397)	(137)	-	(4,386)
Transfer	<u>26,842</u>	<u>2,854</u>	<u>627</u>	<u>369</u>	<u>-</u>	<u>(30,692)</u>	<u>-</u>
At December 31, 2006	105,703	37,203	3,254	4,715	1,286	4,078	156,239
Additions	165	5,985	783	19	407	3,105	10,464
Disposals	-	(131)	-	(308)	(648)	(329)	(1,416)
Transfer	<u>-</u>	<u>3,004</u>	<u>264</u>	<u>1,052</u>	<u>-</u>	<u>(4,320)</u>	<u>-</u>
At December 31, 2007	<u>105,868</u>	<u>46,061</u>	<u>4,301</u>	<u>5,478</u>	<u>1,045</u>	<u>2,534</u>	<u>165,287</u>
<i>Accumulated depreciation</i>							
At December 31, 2005	20,234	18,390	2,426	4,655	1,081	-	46,786
Charge for the year	3,469	4,080	179	504	69	-	8,301
Eliminated on disposals	<u>-</u>	<u>(1,126)</u>	<u>(684)</u>	<u>(2,361)</u>	<u>(137)</u>	<u>-</u>	<u>(4,308)</u>
At December 31, 2006	23,703	21,344	1,921	2,798	1,013	-	50,779
Charge for the year	4,170	6,263	455	728	112	-	11,728
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>-</u>	<u>(128)</u>	<u>(608)</u>	<u>-</u>	<u>(736)</u>
At December 31, 2007	<u>27,873</u>	<u>27,607</u>	<u>2,376</u>	<u>3,398</u>	<u>517</u>	<u>-</u>	<u>61,771</u>
<i>Carrying amount</i>							
At December 31, 2007	<u>77,995</u>	<u>18,454</u>	<u>1,925</u>	<u>2,080</u>	<u>528</u>	<u>2,534</u>	<u>103,516</u>
At December 31, 2006	<u>82,000</u>	<u>15,859</u>	<u>1,333</u>	<u>1,917</u>	<u>273</u>	<u>4,078</u>	<u>105,460</u>

Land and buildings include land costing AED 22.9 million (2006: AED 22.9 million) which is not depreciated.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

10. Other assets

	December 31,	
	2007	2006
	AED'000	AED'000
Interest receivable	22,574	25,694
Prepayments and deposits	9,240	7,464
Others	26,970	13,708
	58,784	46,866

11. Due to other banks

	December 31,	
	2007	2006
	AED'000	AED'000
Term deposits	350,617	1,255
Demand deposits	14,099	6,665
Other borrowings	1,561,025	789,695
	1,925,741	797,615
By geographical area		
Within UAE	1,742,044	558,859
Outside the UAE	183,697	238,756
	1,925,741	797,615

Other borrowings at December 31, 2007 comprise two term loans amounting to USD 150 million and USD 275 million (2006: USD 65 million and USD 150 million) arranged through a syndicate of banks. Both the term loans are unsecured, repayable in full by September 2009 and June 2010 (2006: July 2008 and September 2009) respectively, and carry a floating rate of interest which is linked to 1,3 or 6 months LIBOR at the discretion of the Bank (2006: 1,3 or 6 months LIBOR).

The Bank has not defaulted in the repayment of any bank borrowings or on the payment of interest thereon.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

12. Customers' deposits

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED'000	AED'000
Time deposits	3,639,216	2,021,071
Savings deposits	88,696	72,913
Current accounts	681,675	502,247
Other deposits	<u>123,095</u>	<u>35,890</u>
	<u>4,532,682</u>	<u>2,632,121</u>

All customers' deposits are within UAE.

13. Other liabilities

	<u>December 31,</u>	
	<u>2007</u>	<u>2006</u>
	AED'000	AED'000
Accounts payable	41,870	14,034
Interest payable	28,497	31,012
Provision for employees' end of service benefits	14,403	6,982
Other staff benefits	1,570	1,756
Others	<u>32,435</u>	<u>34,023</u>
	<u>118,775</u>	<u>87,807</u>

Movement in provision for employees' end of service benefits

	<u>2007</u>	<u>2006</u>
	AED'000	AED'000
At January 1	6,982	5,761
Provision made during the year (Note 22)	8,249	1,931
Payments made during the year	<u>(828)</u>	<u>(710)</u>
At December 31	<u>14,403</u>	<u>6,982</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

14. Share capital

At December 31, 2007, the issued and fully paid share capital comprised 660 million shares of AED 1 each (December 31, 2006: 600 million shares of AED 1 each).

At the Annual General Meeting held on February 25, 2007, the shareholders approved a stock dividend (issue of bonus shares) at 10% of the issued and paid up capital amounting to AED 60 million (2006: 20% of the issued and paid up capital amounting to AED 100 million).

At the Board meeting held on January 30, 2008 the Board of Directors proposed a right issue of 50% of share capital of 660 million shares at AED 1 each amounting to AED 330 million with a premium of AED 1.50 each per share. This proposal is subject to the approvals of the Shareholders and the respective authorities.

15. Statutory reserve

In accordance with the UAE Federal Law No (8) of 1984, as amended, and the UAE Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Bank. This reserve is not available for distribution.

16. General reserve

The Bank maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an Ordinary General Meeting.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

17. Commitments and contingent liabilities

a) The contractual amounts of the Bank's off-balance sheet amounts are as follows:

	December 31,	
	2007	2006
	AED'000	AED'000
Guarantees	4,127,546	2,007,545
Letters of credit	751,084	315,702
Commitments to extend credit	1,277,512	1,244,363
Forward exchange contracts undertaken on behalf of customers	577,582	72,859
	6,733,724	3,640,469
	6,733,724	3,640,469
By geographical area		
Within the UAE	6,062,095	3,212,245
Outside the UAE	671,629	428,224
	6,733,724	3,640,469

Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

17. Commitments and contingent liabilities (continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

Forward foreign exchange contracts comprise commitments to purchase foreign currencies on behalf of customers, including undelivered spot transactions. These are done mainly on a back to back basis.

b) Capital commitments

At December 31, 2007, the Bank has capital commitments of AED 2.2 million (2006: AED Nil).

18. Interest income and expense

	Year ended December 31, 2007 AED'000	Year ended December 31, 2006 AED'000
Interest income		
Loans and receivables		
Loans and advances	373,968	266,015
Deposits with the UAE Central Bank	36,589	9,602
Other banks	13,072	4,245
Investment securities held-to-maturity	2,185	883
	425,814	280,745
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	70,129	43,731
Borrowings from other banks	69,131	25,181
	139,260	68,912

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

19. Investment revenue /(losses)

	Year ended December 31, 2007	Year ended December 31, 2006
	<u>AED'000</u>	<u>AED'000</u>
Dividend income		
a) Investment securities available-for-sale	1,072	614
b) Investment securities at fair value through profit and loss - held for trading	10,191	999
Fair value gain/(loss) on investment securities at fair value through profit and loss - held for trading	105,070	(75,853)
Impairment loss on investment securities available- for-sale	(14,935)	-
Profit/(loss) on sale of investments		
a) Investment securities available-for-sale	12,065	-
b) Investment securities at fair value through profit and loss - held for trading	<u>2,709</u>	(<u>59</u>)
	<u>116,172</u>	(<u>74,299</u>)

20. Other operating income

	Year ended December 31, 2007	Year ended December 31, 2006
	<u>AED'000</u>	<u>AED'000</u>
Rental income	7,896	5,976
Foreign exchange income – net	20,372	5,291
Others	<u>1,551</u>	<u>1,266</u>
	<u>29,819</u>	<u>12,533</u>

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

21. Operating expenses

	Year ended December 31, 2007	Year ended December 31, 2006
	<u>AED'000</u>	<u>AED'000</u>
Staff costs (Note 22)	55,513	35,016
Occupancy costs	9,525	6,660
Depreciation (Note 9)	11,728	8,301
Loss on disposal of property and equipment	128	10
Staff benefits (Note 22)	11,445	4,018
Fees and commission expenses	4,601	1,598
Others	<u>19,074</u>	<u>11,946</u>
	<u>112,014</u>	<u>67,549</u>

22. Staff costs

	Year ended December 31, 2007	Year ended December 31, 2006
	<u>AED'000</u>	<u>AED'000</u>
Staff costs		
Salaries and allowances	53,401	33,341
Staff training	1,620	1,350
Housing and medical	<u>492</u>	<u>325</u>
	<u>55,513</u>	<u>35,016</u>
Staff benefits		
Pension	2,182	1,306
End of service benefits (Note 13)	8,249	1,931
Others	<u>1,014</u>	<u>781</u>
	<u>11,445</u>	<u>4,018</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

23. Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year. In accordance with IAS 33 “Earnings per Share”, the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	Year ended December 31, 2007	Year ended December 31, 2006
Profit for the year in AED	333,770,000	87,958,000
Average number of shares in issue	660,000,000	660,000,000
Basic earnings per share in AED	0.51	0.13

There were no potentially dilutive shares as at December 31, 2007 and 2006.

24. Dividend per share

At the Board meeting held on January 30, 2008 the Board of Directors proposed a share dividend of 50% amounting to AED 330 million in respect of the year ended December 31, 2007 (2006: cash dividend of 10% amounting to AED 60 million and share dividend of 10% amounting to AED 60 million). The above bonus share issue will be accounted for in the financial statements of the Bank in the year ending December 31, 2008. This proposal is subject to the approval of the Shareholders.

25. Related party transactions

Related parties comprise key management staff personnel, businesses controlled by shareholders and directors of the Bank as well as businesses over which they exercise significant influence. During the year, the Bank entered into the following significant transactions with related parties in the ordinary course of business.

	Year ended December 31, 2007	Year ended December 31, 2006
	AED'000	AED'000
Interest income	11,238	6,479
Interest expense	582	340
Remuneration of key management personnel	10,638	3,526
Other income	3,427	1,666
Directors' fees	700	700

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

25. Related party transactions (continued)

Outstanding balances at the balance sheet date from transactions with related parties are as follows:

	December 31,	
	2007	2006
	AED'000	AED'000
Loans and advances	138,714	191,102
Customer deposits	51,551	35,523
Irrevocable commitments and contingent liabilities	237,394	210,696

26. Cash and cash equivalents

	December 31,	
	2007	2006
	AED'000	AED'000
Cash in hand (Note 5)	70,530	47,895
Current account with the UAE Central Bank (Note 5)	81,110	36,334
Certificates of deposit with the UAE Central Bank (Note 5)	2,365,000	50,000
Term and demand deposits with other banks (Note 6)	121,269	68,345
	2,637,909	202,574

27. Business segments

The Bank is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages and corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

27. Business segments (continued)

Treasury and others - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the UAE Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

Primary segment information

	Retail and corporate banking	Treasury and others	Total
	AED'000	AED'000	AED'000
December 31, 2007			
Gross income	<u>436,709</u>	<u>179,853</u>	<u>616,562</u>
Segment result	<u>224,909</u>	<u>104,193</u>	<u>329,102</u>
Unallocated income			<u>4,668</u>
Profit for the year			<u>333,770</u>
Segment assets	<u>5,112,662</u>	<u>3,212,873</u>	<u>8,325,535</u>
Unallocated assets			<u>103,516</u>
Total assets			<u>8,429,051</u>
Segment liabilities	<u>4,754,319</u>	<u>1,949,880</u>	<u>6,704,199</u>
Unallocated liabilities			<u>2,114</u>
Total liabilities			<u>6,706,313</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

27. Business segments (continued)

Primary segment information (continued)

	Retail and corporate banking	Treasury and others	Total
	AED'000	AED'000	AED'000
December 31, 2006			
Gross income	<u>295,533</u>	<u>(57,463)</u>	<u>238,070</u>
Segment result	<u>171,378</u>	<u>(85,599)</u>	85,779
Unallocated income			<u>2,179</u>
Profit for the year			<u>87,958</u>
Segment assets	<u>4,384,681</u>	<u>678,049</u>	5,062,730
Unallocated assets			<u>105,460</u>
Total assets			<u>5,168,190</u>
Segment liabilities	<u>2,926,190</u>	<u>826,640</u>	3,752,830
Unallocated liabilities			<u>1,036</u>
Total liabilities			<u>3,753,866</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

28. Classification and fair value of financial instruments

Assets	<u>Loans and receivables</u> AED'000	<u>Held-to- maturity</u> AED'000	<u>Held for trading</u> AED'000	<u>Available- for-sale</u> AED'000	<u>Non-financial instruments</u> AED'000	<u>Total</u> AED'000
December 31, 2007						
Cash and balances with the UAE						
Central Bank	2,673,011	-	-	-	-	2,673,011
Due from other banks	148,817	-	-	-	-	148,817
Loans and advances	4,929,223	-	-	-	-	4,929,223
Investment securities	-	62,768	265,057	58,760	-	386,585
Customers' acceptances	129,115	-	-	-	-	129,115
Property and equipment	-	-	-	-	103,516	103,516
Other assets	-	-	-	-	58,784	58,784
Total assets	7,880,166	62,768	265,057	58,760	162,300	8,429,051
December 31, 2006						
Cash and balances with the UAE						
Central Bank	237,626	-	-	-	-	237,626
Due from other banks	68,345	-	-	-	-	68,345
Loans and advances	4,123,047	-	-	-	-	4,123,047
Investment securities	-	16,624	300,310	33,589	-	350,523
Customers' acceptances	236,323	-	-	-	-	236,323
Property and equipment	-	-	-	-	105,460	105,460
Other assets	-	-	-	-	46,866	46,866
Total assets	4,665,341	16,624	300,310	33,589	152,326	5,168,190

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

28. Classification and fair value of financial instruments (continued)

Liabilities	At amortised cost	Non- financial instruments	Total
	<u>AED'000</u>	<u>AED'000</u>	<u>AED'000</u>
December 31, 2007			
Due to other banks	1,925,741	-	1,925,741
Customers' deposits	4,532,682	-	4,532,682
Customers' acceptances	129,115	-	129,115
Other liabilities	<u>-</u>	<u>118,775</u>	<u>118,775</u>
Total liabilities	<u>6,587,538</u>	<u>118,775</u>	<u>6,706,313</u>
December 31, 2006			
Due to other banks	797,615	-	797,615
Customers' deposits	2,632,121	-	2,632,121
Customers' acceptances	236,323	-	236,323
Other liabilities	<u>-</u>	<u>87,807</u>	<u>87,807</u>
Total liabilities	<u>3,666,059</u>	<u>87,807</u>	<u>3,753,866</u>

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

29. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

29. Financial risk management (continued)

Credit risk

The Bank assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit exposures arise principally in loans and advances, due from banks and investment securities. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralised in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has been reorganised to include units for customer rating, portfolio Acceptance Criteria is already in place. The Bank is in the process of setting up the internal risk rating systems to comply with IRB Foundation norms of Basel II. Portfolio Management Unit has been set up to measure, monitor and control the risk in the credit portfolio, take up analysis and test the resilience of the portfolio to various factors. Remedial Management Unit is functioning to prevent accretion of non-performing assets through timely action and maximise recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 30 summarises the Bank's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigates are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

29. Financial risk management (continued)

Market risk

Market risk for the Bank refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Bank's earnings and capital to risk.

The market risk department of the Bank addresses these risks to ALCO on a regular basis. The ALCO takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. 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 endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on daily basis. The Bank's Assets Liabilities Committee ("ALCO") has put in place the policy to manage the liquidity risk and monitor the position regularly. Note 31 summarises the Bank's exposure to liquidity risk.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Bank as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Bank manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Bank analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 100 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Bank. It is controlled through the limit prescribed for the same. Note 32 summarises the Bank exposure to interest rate risk.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

29. Financial risk management (continued)

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 33 summarises the Bank's exposure to foreign exchange risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Bank. While operational risk cannot be fully eliminated, management endeavours to minimise the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organisation.

To accomplish the above objective, the bank has an independent and dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. The Bank is developing systems and procedures with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive audit system.

The Bank is currently implementing under noted processes aimed at monitoring, and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.
- Developing a comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

30. Credit risk

Aging analysis for loans and advances

Loans and advances	<u>Maximum exposure</u> AED'000	Neither past due nor <u>impaired</u> AED'000	<u>Not impaired but past due</u>		<u>Impaired</u> AED'000
			<u>60 days or below</u> AED'000	<u>Above 60 days</u> AED'000	
December 31, 2007	<u>5,059,510</u>	<u>4,836,518</u>	<u>42,633</u>	<u>41,394</u>	<u>138,965</u>
December 31, 2006	<u>4,219,326</u>	<u>4,070,453</u>	<u>12,947</u>	<u>63,132</u>	<u>72,794</u>

Loans and advances are secured by collaterals amounting to AED 2,194 million (2006: AED 1,572 million)

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

30. Credit risk (continued)

Loans and advances exposure by industry

December 31, 2007

	<u>Gross loans</u> AED'000	<u>Non performing loans</u> AED'000	<u>Performing loans</u> AED'000	<u>General provision</u> AED'000	<u>Specific provision</u> AED'000	<u>Net loans</u> AED'000
Wholesale and retail trade	1,782,779	40,275	1,742,504	17,425	21,717	1,743,637
Construction	1,257,610	17,656	1,239,954	12,400	3,692	1,241,518
Personal loans and others	743,533	43,411	700,122	7,001	34,663	701,869
Manufacturing	308,564	478	308,086	3,080	384	305,100
Agriculture and allied activities	2,826	-	2,826	28	-	2,798
Transport and communications	53,956	5,608	48,348	483	5,608	47,865
Financial Institutions	78,075	-	78,075	781	-	77,294
Services	794,472	31,460	763,012	7,630	8,660	778,182
Others	37,695	77	37,618	6,682	53	30,960
Total	5,059,510	138,965	4,920,545	55,510	74,777	4,929,223

December 31, 2006

	<u>Gross loans</u> AED'000	<u>Non performing loans</u> AED'000	<u>Performing loans</u> AED'000	<u>General provision</u> AED'000	<u>Specific provision</u> AED'000	<u>Net loans</u> AED'000
Wholesale and retail trade	1,793,615	17,568	1,776,047	17,688	16,472	1,759,455
Construction	622,981	5,942	617,039	6,091	4,464	612,426
Personal loans and others	724,007	31,732	692,275	10,258	18,881	694,868
Manufacturing	267,102	4,326	262,776	2,345	2,742	262,015
Agriculture and allied activities	1,726	-	1,726	17	-	1,709
Transport and communications	53,630	5,628	48,002	460	5,628	47,542
Financial institutions	98,400	-	98,400	1,033	-	97,367
Services	629,851	5,776	624,075	6,741	3,454	619,656
Others	28,014	1,822	26,192	5	-	28,009
Total	4,219,326	72,794	4,146,532	44,638	51,641	4,123,047

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

30. Credit risk (continued)

Provision movement by industry

Year 2007

	<u>At January 1, 2007</u> AED'000	<u>Addition</u> AED'000	<u>Released</u> AED'000	<u>Write off</u> AED'000	<u>At December 31, 2007</u> AED'000
Wholesale and retail trade	34,160	15,743	7,331	3,430	39,142
Construction	10,555	6,387	835	15	16,092
Personal loans and others	29,139	23,810	9,395	1,890	41,664
Manufacturing	5,087	1,360	2,735	248	3,464
Agriculture and allied activities	17	11	-	-	28
Transport and communications	6,088	23	20	-	6,091
Financial Institutions	1,033	(252)	-	-	781
Services	10,195	8,973	1,234	1,644	16,290
Others	<u>5</u>	<u>6,741</u>	<u>1,834</u>	<u>(1,823)</u>	<u>6,735</u>
Total	<u>96,279</u>	<u>62,796</u>	<u>23,384</u>	<u>5,404</u>	<u>130,287</u>

Year 2006

	<u>At January 1, 2006</u> AED'000	<u>Addition</u> AED'000	<u>Released</u> AED'000	<u>Write off</u> AED'000	<u>At December 31, 2006</u> AED'000
Wholesale and retail trade	27,091	9,952	1,501	1,382	34,160
Construction	7,933	4,818	1,394	802	10,555
Personal loans and others	34,645	7,609	5,374	7,741	29,139
Manufacturing	5,094	495	502	-	5,087
Agriculture and allied activities	87	(70)	-	-	17
Transport and communications	6,192	764	220	648	6,088
Financial Institutions	37	996	-	-	1,033
Services	6,146	4,418	369	-	10,195
Others	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
Total	<u>87,225</u>	<u>28,987</u>	<u>9,360</u>	<u>10,573</u>	<u>96,279</u>

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

30. Credit risk (continued)

Movement in loans and provisioning

Year 2007

	<u>Performing loans</u>		<u>Non performing loans</u>	
	<u>Gross performing loans</u> AED'000	<u>General provision</u> AED'000	<u>Gross non performing loans</u> AED'000	<u>Specific provision</u> AED'000
Opening balance	4,146,532	44,638	72,794	51,641
Addition during the year	3,156,175	10,872	108,083	51,924
Reduction during the year	(2,382,162)	-	(41,912)	(28,788)
Closing balance	4,920,545	55,510	138,965	74,777
	=====	=====	=====	=====

Year 2006

	<u>Performing loans</u>		<u>Non performing loans</u>	
	<u>Gross performing loans</u> AED'000	<u>General provision</u> AED'000	<u>Gross non performing loans</u> AED'000	<u>Specific provision</u> AED'000
Opening balance	2,635,831	31,728	70,014	55,497
Addition during the year	1,639,380	12,910	58,103	16,077
Reduction during the year	(128,679)	-	(55,323)	(19,933)
Closing balance	4,146,532	44,638	72,794	51,641
	=====	=====	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

31. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items

December 31, 2007

	<u>Upto 1 month</u> AED'000	<u>1 month - 3 months</u> AED'000	<u>3 months - 1 year</u> AED'000	<u>1 year - 5 years</u> AED'000	<u>Over 5 years</u> AED'000	<u>Total</u> AED'000
Due to other banks	14,099	55,095	295,522	1,561,025	-	1,925,741
Customers' deposits	1,443,032	507,134	776,361	1,805,683	472	4,532,682
Customers' acceptances	129,115	-	-	-	-	129,115
Other liabilities	44,078	43,948	30,749	-	-	118,775
Shareholders' equity	-	66,755	441,232	24,045	1,190,706	1,722,738
A Total on-balance sheet items	<u>1,630,324</u>	<u>672,932</u>	<u>1,543,864</u>	<u>3,390,753</u>	<u>1,191,178</u>	<u>8,429,051</u>
Forward sale	38,986	61,159	311,983	-	-	412,128
Guarantees	380	-	1,140	-	-	1,520
Unavailed limits	<u>1,026,498</u>	<u>75,305</u>	<u>175,709</u>	-	-	<u>1,277,512</u>
B Total off-balance sheet items	<u>1,065,864</u>	<u>136,464</u>	<u>488,832</u>	-	-	<u>1,691,160</u>
Grand total [A+B]	<u>2,696,188</u>	<u>809,396</u>	<u>2,032,696</u>	<u>3,390,753</u>	<u>1,191,178</u>	<u>10,120,211</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

31. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items (continued)

December 31, 2006

	<u>Upto 1 month</u> AED'000	<u>1 month - 3 months</u> AED'000	<u>3 months 1 year</u> AED'000	<u>1 year - 5 years</u> AED'000	<u>Over 5 years</u> AED'000	<u>Total</u> AED'000
Due to other banks	7,920	-	-	789,695	-	797,615
Customers' deposits	933,428	321,457	365,265	1,011,173	798	2,632,121
Customers' acceptances	236,323	-	-	-	-	236,323
Other liabilities	41,840	28,460	17,507	-	-	87,807
Shareholders' equity	-	-	294,217	(10,599)	1,130,706	1,414,324
A Total on-balance sheet items	<u>1,219,511</u>	<u>349,917</u>	<u>676,989</u>	<u>1,790,269</u>	<u>1,131,504</u>	<u>5,168,190</u>
Forward sale	36,578	164	-	-	-	36,742
Guarantees	1,372	-	4,117	-	-	5,489
Unavailed limits	<u>1,009,869</u>	<u>70,348</u>	<u>164,146</u>	-	-	<u>1,244,363</u>
B Total off-balance sheet items	<u>1,047,819</u>	<u>70,512</u>	<u>168,263</u>	<u>-</u>	<u>-</u>	<u>1,286,594</u>
Grand total [A+B]	<u>2,267,330</u> =====	<u>420,429</u> =====	<u>845,252</u> =====	<u>1,790,269</u> =====	<u>1,131,504</u> =====	<u>6,454,784</u> =====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

32. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	<u>Less than 3 months</u> AED'000	<u>From 3 months to 1 year</u> AED'000	<u>Over 1 year</u> AED'000	<u>Non- interest bearing</u> AED'000	<u>Total</u> AED'000
At December 31, 2007					
Financial assets					
Cash and balances with the UAE Central bank	2,325,000	40,000	-	308,011	2,673,011
Due from other banks	125,531	-	-	23,286	148,817
Loans and advances	3,669,408	536,691	641,413	81,711	4,929,223
Investment securities	47,749	14,997	-	323,839	386,585
Customers' acceptances	<u>129,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,115</u>
Total	<u>6,296,803</u>	<u>591,688</u>	<u>641,413</u>	<u>736,847</u>	<u>8,266,751</u>
Financial liabilities					
Due to other banks	1,873,230	38,412	-	14,099	1,925,741
Customers' deposits	1,353,498	610,942	55,506	2,512,736	4,532,682
Customers' acceptances	<u>129,115</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,115</u>
Total	<u>3,355,843</u>	<u>649,354</u>	<u>55,506</u>	<u>2,526,835</u>	<u>6,587,538</u>
On balance sheet interest rate sensitivity gap	<u>2,940,960</u>	<u>(57,666)</u>	<u>585,907</u>	<u>(1,789,988)</u>	<u>1,679,213</u>
At December 31, 2006					
Total financial assets	<u>3,958,900</u>	<u>347,181</u>	<u>165,054</u>	<u>544,729</u>	<u>5,015,864</u>
Total financial liabilities	<u>1,869,373</u>	<u>243,717</u>	<u>22,847</u>	<u>1,530,122</u>	<u>3,666,059</u>
On balance sheet interest rate sensitivity gap	<u>2,089,527</u>	<u>103,464</u>	<u>142,207</u>	<u>(985,393)</u>	<u>1,349,805</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

32. Interest rate risk (continued)

Rate sensitivity analysis

At the balance sheet date if interest rates had been 50 bps higher/lower and all the other variables were held constant, the Bank's:

- Net interest income would have increased/decreased by AED 13.4 million (2006: AED 4.5 million).
- Other equity reserves would have increased/decreased by AED 11.9 million (2006: AED 16.2 million).

Method and assumptions for sensitivity analysis

- Interest rate may fluctuate by a reasonable +/- 50 bps.
- A 50 bps change is used to give a realistic assessment vis-à-vis prevailing interest rates on the balance sheet date.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the mid point of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

33. Currency risk

Concentration of assets and liabilities by currency:

	<u>AED</u> AED'000	<u>USD</u> AED'000	<u>Others</u> AED'000	<u>Total</u> AED'000
At December 31, 2007				
Financial assets				
Cash and balances with the UAE Central Bank	2,667,608	5,403	-	2,673,011
Due from other banks	60,044	54,728	34,045	148,817
Loans and advances	4,928,296	-	927	4,929,223
Investment securities	69,102	48,090	269,393	386,585
Customers' acceptances	<u>129,115</u>	<u>-</u>	<u>-</u>	<u>129,115</u>
Total financial assets	<u>7,854,165</u>	<u>108,221</u>	<u>304,365</u>	<u>8,266,751</u>
Financial liabilities				
Due to other banks	14,052	1,909,960	1,729	1,925,741
Customers' deposits	4,368,841	9,172	154,669	4,532,682
Customers' acceptances	<u>129,115</u>	<u>-</u>	<u>-</u>	<u>129,115</u>
Total financial liabilities	<u>4,512,008</u>	<u>1,919,132</u>	<u>156,398</u>	<u>6,587,538</u>
Net balance sheet position	<u>3,342,157</u>	<u>(1,810,911)</u>	<u>147,967</u>	<u>1,679,213</u>
Off balance sheet position	<u>6,056,789</u>	<u>511,069</u>	<u>165,866</u>	<u>6,733,724</u>
At December 31, 2006				
Total financial assets	<u>4,652,844</u>	<u>46,496</u>	<u>316,524</u>	<u>5,015,864</u>
Total financial liabilities	<u>2,833,308</u>	<u>821,507</u>	<u>11,244</u>	<u>3,666,059</u>
Net balance sheet position	<u>1,819,536</u>	<u>(775,011)</u>	<u>305,280</u>	<u>1,349,805</u>
Off balance sheet position	<u>3,578,661</u>	<u>41,210</u>	<u>20,598</u>	<u>3,640,469</u>

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007

33. Currency risk (continued)

Rate sensitivity analysis

Year 2007

	<u>Foreign currency assets</u> AED '000	<u>Foreign currency liabilities</u> AED'000	<u>Net forward purchase/ sale</u> AED'000	<u>Net long/ (short) position</u> AED'000	<u>Impact on statement of income and equity</u> AED'000
Pegged Currencies					
US Dollar	108,221	1,919,132	137,280	(1,673,631)	33,472
Saudi Riyal	52,331	-	-	52,331	(1,047)
Bahrain Dinar	8,151	-	-	8,151	(163)
Omani Riyal	15,124	-	-	15,124	(302)
Qatar Riyal	343	-	-	343	(7)
Other Currencies					
Kuwait Dinar	194,542	-	-	194,542	(19,454)
Great British Pound	1,675	1,650	-	25	(2)
Euro	23,937	146,561	122,661	37	(4)
Swiss Frank	90	78	-	12	(1)
Japanese Yen	8,125	8,109	-	16	(2)
Indian Rupee	9	-	-	9	(1)
Lankan Rupee	6	-	-	6	(1)
Canadian Dollar	32	-	-	32	(3)
	<u>412,586</u>	<u>2,075,530</u>	<u>259,941</u>	<u>(1,403,003)</u>	
Total impact if foreign currency fluctuates against AED					+/-12,485 =====

Year 2006

	<u>Foreign currency assets</u> AED'000	<u>Foreign currency liabilities</u> AED'000	<u>Net forward purchase/ sale</u> AED'000	<u>Net long/ (short) position</u> AED'000	<u>Impact on statement of income and equity</u> AED'000
Pegged Currencies					
US Dollar	46,496	821,507	433	(774,578)	15,491
Saudi Riyal	55,250	-	-	55,250	(1,105)
Bahrain Dinar	73	-	-	73	(1)
Omani Riyal	16,684	-	-	16,684	(333)
Qatar Riyal	26	-	-	26	(1)
Kuwait Dinar	233,118	-	-	233,118	(4662)
Other Currencies					
Great British Pound	489	455	-	34	(3)
Euro	3,171	3,169	-	2	-
Swiss Frank	5	-	-	5	(1)
Japanese Yen	7,708	7,620	-	88	(9)
	<u>363,020</u>	<u>832,751</u>	<u>433</u>	<u>(469,298)</u>	
Total impact if foreign currency fluctuates against AED					+/-9,376 =====

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

33. Currency risk (continued)

Rate sensitivity analysis (continued)

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the balance sheet date
- Exchange rate fluctuation of 2% in AED against the respective pegged foreign currencies and exchange rate fluctuation of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

34. Equity price risk

Sensitivity analysis

At the balance sheet date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant the Bank's:

- Statement of income/equity would have increased/decreased by AED 32.4 million (2006 AED 33.4 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the balance sheet date.
- As at the balance sheet date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

35. Capital management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Bank had complied in full with all external imposed capital requirements. The UAE Central Bank requires the banks in UAE to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 10%.

Capital structure

The table below details the regulatory capital resources of the Bank:

	December 31,	
	<u>2007</u>	<u>2006</u>
	AED'000	AED'000
Tier 1 Capital		
Share capital	660,000	600,000
Statutory reserve	524,266	524,266
General reserve	6,440	6,440
Retained earnings	<u>174,217</u>	<u>206,259</u>
Total Tier 1	<u>1,364,923</u>	<u>1,336,965</u>
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	10,821	(10,599)
General reserves on unclassified loans and advances to customers	<u>55,510</u>	<u>44,638</u>
Total Tier 2	<u>66,331</u>	<u>34,039</u>
Total Regulatory Capital	<u>1,431,254</u>	<u>1,371,004</u>

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2007**

36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on January 30, 2008.

37. Comparative amounts

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