



2006

ANNUAL REPORT



البنك العربي المتحد
UNITED ARAB BANK
P.J.S.C



البنك العربي المتحد
UNITED ARAB BANK P.J.S.C.

2006
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البنك العربي المتحد
UNITED ARAB BANK P.J.S.C.

2006



Sheikh Faisal Bin Sultan Bin Salem Al Qassimi



**Sheikh Faisal Bin Sultan
Bin Salem Al Qassimi**
Chairman



**Sheikh Sultan Bin Saqr
Al Qassimi**
Vice Chairman



**Sheikh Khalid Bin Saqr
Al Qassimi**



**Mr. Hussain Abdul
Rahman Khansaheb**



**Mr. Ahmed Mohamad
Hamad Al Midfa**



**Mr. Abdullah Rashed
Al Majid**



**Mr. Salem Abdullah
Salem**



**Mr. Mohamed Abdulbaki
Mohamed**

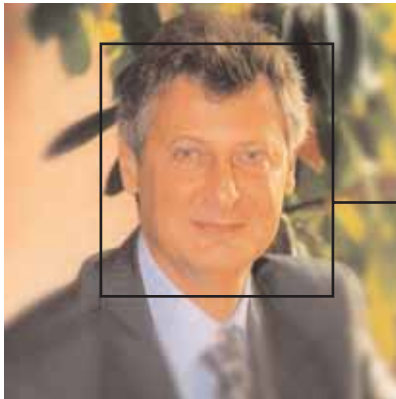


**Mr. Ahmed Mohamad
Bakheet Khalfan**

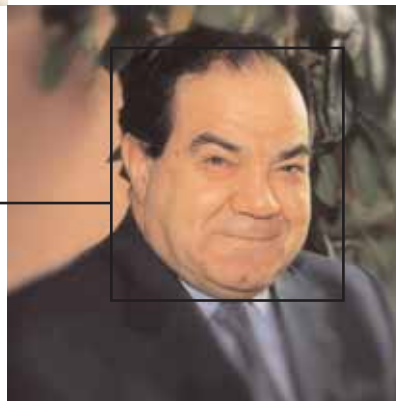


MANAGEMENT





Mr. Bertrand Giraud
Chief Executive Officer



Mr. Awni Al Alami
Deputy Chief Executive Officer



BRIEF HISTORY





البنك العربي المتحد
UNITED ARAB BANK P.J.S.C.

2006
BRIEF HISTORY

United Arab Bank P.J.S.C was founded in Sharjah in 1975 by a group of UAE businessmen in cooperation with Société Générale of France, the largest private French banking group. Société Générale was responsible for the overall management of the Bank under the terms of a cooperation agreement entered into at the time of its inception, however, subsequently in February 2005 Société Générale decided to forego its ownership in UAB. The deal was concluded through a specifically created fund, on behalf of all the shareholders of UAB in what was reported to be one of the largest UAE share deals concluded in recent years.

United Arab Bank P.J.S.C is a public joint stock company, and its shareholders are drawn from the seven Emirates of the Federation. The Bank's shares are listed effective end February 2005 and traded on Abu Dhabi Securities Market.

United Arab Bank P.J.S.C operates as a full service bank through a network of nine branches in the UAE serving all types of customers and segments of the economic activity. United Arab Bank P.J.S.C has access to international banking network through correspondent banking relationships with reputed banks worldwide.



DIRECTORS' REPORT





On behalf of the Board of Directors, I am pleased to present the financial position of United Arab Bank P.J.S.C for the year ended 31 December 2006. The financial statements have been prepared in compliance with the International Financial Reporting Standards.

The Bank's performance during the year under review was satisfactory and the results achieved are in line with the anticipated projections. The Bank's Operating Income increased by 7.7% from AED238.6 Million to AED256.0 Million. The Net Profit has increased marginally by 2.14% from AED154.8 Million to AED158.2 Million. The Earnings Per Share have improved by 4.2% from AED0.24 in 2005 to AED0.25 in 2006.

The results for the two years include the effects of non-core banking activities. Adjusted for these items, the profits from core banking activities increased from AED 119.5 million in 2005 to AED 159.6 million in 2006; an increase of approximately 33%.

The Bank has focused on growing and maintaining high quality assets, improving quality of service, and ensuring that Shareholders and Depositors funds are appropriately utilized to have better returns on the resources available. This is evidenced by the fact that our financial figures have improved at the end of December 2006 compared to previous year as follows:

- Total Balance Sheet footing increased by 15.9% from AED4.133 Billion to AED4.790 Billion.
- Loans & Advances increased by 13.2% from AED2.952 Billion to AED3.341 Billion.
- Cash & Due from Banks increased by 24.8% from AED870 Million to AED1.086 Billion.
- Customer Deposits increased by 12.7% from AED2.906 Billion to AED3.273 Billion.
- Contingent Liabilities & Commitments increased by 14.0% from AED1.242 Billion to AED1.416 Billion.

We have maintained our policy of maximum coverage for losses against loans and advances through a high level of provisioning in order to ensure that all doubtful loans and advances are appropriately provided for against potential losses. Accordingly the net provision made for doubtful Loans & Advances for the year 2006 amounted to AED20.796 Million (2005: AED18.398 Million).

The proposed appropriation of profits for the year ended 31 December 2006 is as follows:

	<u>AED'000</u>
Balance of opening Retained Earnings	563
Net Profit for the year	158,154
Transfer from General Reserve	1,500
Balance available for appropriation	<u>160,217</u>
Transfer to Special Reserve	15,815
Transfer to Statutory Reserve	15,815
Proposed Scrip dividend – 12% of the Paid up Capital	76,255
Proposed Cash dividend – 8% of the Paid up Capital	50,837
Proposed Directors' remuneration	1,350
Balance in Retained Earnings	145
	<u>160,217</u>

After proposed appropriation of profit and subject to approval of the General Assembly, the total shareholders funds will increase to AED1.093 Billion at the end of December 2006 (2005: AED958.467 Million).

External Consultants were appointed in 2006 and requested to give their recommendation for a new strategic direction and their proposal for an adaptation of the structure of the bank and its organization chart. Their reports were discussed at length by the Executive Committee appointed by the Board and approved by the Board in December 2006 for implementation.

As part of the Bank's policy to provide efficient services to its customers and have forceful Internal Controls and segregation of functions, the process of Centralization of Activities continues and accordingly the Operation functions such as Disbursement of Loans, Account Opening, Central Bank Clearing, Remittances, etc. will be centralized at Head Office with the expertise and resources available within the Bank. This action will improve customer service and, above all, strengthen security and cost effectiveness for the Bank.

The Bank is continuing its policy of Emiratization and its commitment and support to the National Human Resources Development Program of the Government. The Bank is recruiting UAE Nationals and training them appropriately through both the Emirates Institute for Banking & Financial Studies and Internal Courses. The overall rate of UAE Nationals employed by UAB is 38% at the end of December 2006.

In conclusion, on behalf of the Board of Directors, I wish to thank the Management and Staff of United Arab Bank P.J.S.C for the professionalism and hard work in achieving the positive results. I hope the teamwork spirit will continue for further development and prosperity of the Bank in the years ahead.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
24 January 2007



AUDITORS' REPORT





Report on the Financial Statements

We have audited the accompanying financial statements of United Arab Bank P.J.S.C ('the Bank'), which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and applicable provisions of the articles of association of the Bank, Federal Law No.8 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 2006, 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 Federal Law No.8 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 Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Signed by
Edward B Quinlan
Partner
Registration No. 93

24 January 2007
Sharjah, United Arab Emirates



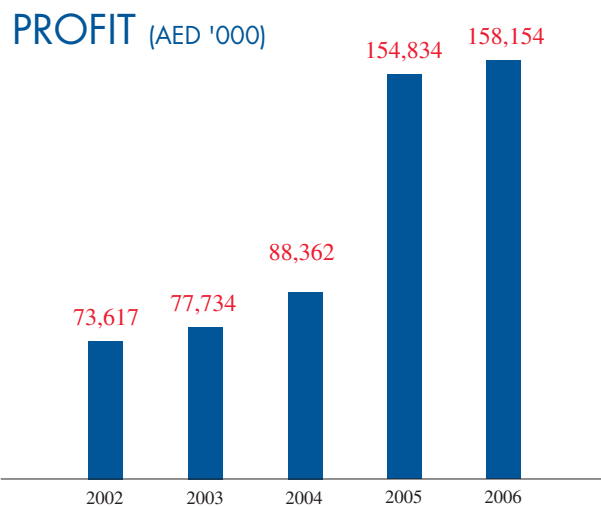
INCOME STATEMENT





	Notes	2006 AED'000	2005 AED'000
Interest and similar income	4	306,234	344,424
Interest expenses and similar charges	5	100,012	177,118
NET INTEREST INCOME		206,222	167,306
Net fees and commission income		35,533	30,407
Gains less losses arising from dealing in foreign currencies		17,678	15,676
Changes in fair value of trading investments		(17,897)	21,270
Gain on sale of an investment		5,022	-
Other operating income	6	30,284	22,384
TOTAL OPERATING INCOME		276,842	257,043
Provision for credit losses	8	(20,796)	(18,398)
NET OPERATING INCOME		256,046	238,645
Personnel expenses		71,499	62,190
Depreciation on property and equipment	7	4,544	4,437
Other operating expenses		21,849	17,184
TOTAL OPERATING EXPENSES		97,892	83,811
PROFIT FOR THE YEAR		158,154	154,834
BASIC AND DILUTED EARNINGS PER SHARE	9	AED 0.25	AED 0.24

The attached notes 1 to 26 form part of these financial statements.





	Notes	2006 AED'000	2005 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	491,851	359,764
Due from banks		594,074	510,098
Loans and advances	8	3,340,950	2,951,741
Investments	11	207,838	200,229
Property and equipment	7	16,676	17,560
Other assets	12	138,273	93,221
TOTAL ASSETS		4,789,662	4,132,613
LIABILITIES			
Due to banks		328,148	192,302
Customer deposits	13	3,273,222	2,905,501
Other liabilities	14	95,418	76,343
TOTAL LIABILITIES		3,696,788	3,174,146
SHAREHOLDERS' FUNDS			
Share capital	15	635,460	508,368
Special reserve	15	117,840	102,025
Statutory reserve	15	200,395	184,580
Proposed scrip dividend	15	76,255	127,092
Proposed cash dividend	15	50,837	-
General reserve	15	6,311	7,811
Retained profit		145	563
Cumulative changes in fair values		5,631	28,028
TOTAL SHAREHOLDERS' FUNDS		1,092,874	958,467
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		4,789,662	4,132,613

The financial statements were approved by the Board of Directors on 24 January 2007 and signed on its behalf by:

Faisal Bin Sultan Bin Salem Al Qassimi
(Chairman)

Bertrand Giraud
(Chief Executive Officer)

The attached notes 1 to 26 form part of these financial statements.



	2006 AED'000	2005 AED'000
OPERATING ACTIVITIES		
Net profit for the year	158,154	154,834
Adjustments for:		
Depreciation	4,544	4,437
Provision for credit losses	20,796	18,398
Fair valuation loss/(gain) on investments held for trading	17,897	(21,270)
Gain on sale of investment	(5,022)	-
Loss on disposal of property and equipment	152	121
Change in deposits with UAE Central Bank	(10,000)	-
Change in loans and advances	(410,005)	(603,277)
Change in other assets	(45,052)	(50,215)
Change in due to banks	34,892	38,566
Change in customer deposits	367,721	532,361
Change in other liabilities	19,075	33,768
Net cash from operating activities	153,152	107,723
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,812)	(4,425)
Purchase of investments	(50,363)	(33,780)
Redemption / sale of investments	7,482	27,505
Net cash used in investing activities	(46,693)	(10,700)
FINANCING ACTIVITIES		
Directors' remuneration	(1,350)	(1,350)
Proceeds from issue of share capital	-	203,349
Net cash used in financing activities	(1,350)	201,999
INCREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at 1 January	826,313	527,291
Cash and cash equivalents at 31 December	931,422	826,313
CASH AND CASH EQUIVALENTS		
Cash and balances with UAE Central Bank	481,851	359,764
Due from banks maturing within ninety days	594,074	510,098
Due to banks maturing within ninety days	(144,503)	(43,549)
	931,422	826,313
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDEND		
Interest paid	99,998	176,581
Interest received	305,188	342,501

The attached notes 1 to 26 form part of these financial statements.



	Share capital AED'000 (Note 15a)	Special reserve AED'000 (Note 15b)	Statutory reserve AED'000 (Note 15c)	Proposed scrip dividend AED'000 (Note 15a)	Proposed cash dividend AED'000 (Note 15d)	General reserve AED'000 (Note 15e)	Retained earnings AED'000	Cumulative changes in fair values AED'000	Total AED'000
At 1 January 2006	508,368	102,025	184,580	127,092	-	7,811	563	28,028	958,467
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	(22,397)	(22,397)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	-	(22,397)	(22,397)
Net profit for the year	-	-	-	-	-	-	158,154	-	158,154
Total income and expense for the year -	-	-	-	-	-	-	158,154	(22,397)	135,757
Transfer from general reserve	-	-	-	-	-	(1,500)	1,500	-	-
Scrip dividend 2005 (25%)	127,092	-	-	(127,092)	-	-	-	-	-
Directors' remuneration	-	-	-	-	-	-	(1,350)	-	(1,350)
Transfer to special reserve	-	15,815	-	-	-	-	(15,815)	-	-
Transfer to statutory reserve	-	-	15,815	-	-	-	(15,815)	-	-
Proposed scrip dividend 2006 (12%)	-	-	-	76,255	-	-	(76,255)	-	-
Proposed cash dividend 2006 (8%)	-	-	-	-	50,837	-	(50,837)	-	-
At 31 December 2006	635,460	117,840	200,395	76,255	50,837	6,311	145	5,631	1,092,874
At 1 January 2005	338,911	86,542	67,423	67,782	-	11,811	1,137	(162)	573,444
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	28,190	28,190
Total income and expense for the year recognised directly in equity	-	-	-	-	-	-	-	28,190	28,190
Net profit for the year	-	-	-	-	-	-	154,834	-	154,834
Total income and expense for the year -	-	-	-	-	-	-	154,834	28,190	183,024
Transfer from general reserve	-	-	-	-	-	(4,000)	4,000	-	-
Scrip dividend 2004 (20%)	67,782	-	-	(67,782)	-	-	-	-	-
Rights issue of shares	101,675	-	101,674	-	-	-	-	-	203,349
Directors' remuneration	-	-	-	-	-	-	(1,350)	-	(1,350)
Transfer to special reserve	-	15,483	-	-	-	-	(15,483)	-	-
Transfer to statutory reserve	-	-	15,483	-	-	-	(15,483)	-	-
Proposed scrip dividend 2005 (25%)	-	-	-	127,092	-	-	(127,092)	-	-
At 31 December 2005	508,368	102,025	184,580	127,092	-	7,811	563	28,028	958,467

The attached notes 1 to 26 form part of these financial statements.



1 INCORPORATION AND ACTIVITIES

United Arab Bank was incorporated as a public company with limited liability in the Emirate of Sharjah in 1975 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries on the business of commercial banking through its ten offices and branches in the United Arab Emirates.

2 BASIS OF PREPARATION

Accounting convention

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and investments other than held to maturity investments.

The financial statements have been presented in UAE Dirhams which is the functional currency of the bank and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Statement of compliance

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

Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous year.

IASB Standards and Interpretations issued but not adopted

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

Amendments to IAS 1 - Capital Disclosures

Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the bank's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the bank's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments

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



2 BASIS OF PREPARATION - continued

IFRIC Interpretations

During 2006, IFRIC issued the following interpretations:

- IFRIC Interpretation 8 Scope of IFRS 2
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC Interpretation 10 Interim Financial Reporting and Impairment
- IFRIC Interpretation 11 IFRS 2 - Group and Treasury Share Transactions

Management do not expect these interpretations to have a significant impact on the bank's financial statements when implemented in 2007.

Significant management judgements and estimates

Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities, revenues, expenses, disclosures of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ resulting in future changes in such provisions.

Impairment losses on loans and advances

The Bank reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

Collective impairment provisions on loans and advances

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

Classification of investments

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

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

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

All other investments are classified as available for sale.



3 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Interest receivable and payable is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. The recognition of interest income is suspended when loans become impaired.

Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value.

Fees and commissions receivable or payable are recognised when due. Dividend income is recognised when the right to receive payment is established.

When the Bank enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

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 cost less any amounts written off and provision for impairment, if any.

Loans and advances

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

Trading investments

These are initially recognised at cost and subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the income statement for the year. Interest and dividends received are included in other income according to the terms of the contract or when the right of payment has been established.

Non – trading investments

Non-trading investments are classified as follows:

- Held to maturity
- Available for sale

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

Held to maturity

Securities which have fixed or determinable payments which are intended to be held to maturity are carried at amortised cost using the effective interest rate method, less provision for impairment in value.



3 SIGNIFICANT ACCOUNTING POLICIES - continued

Available for sale

After initial recognition, securities which are classified as “available for sale” are remeasured at fair value unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as “cumulative changes in fair value” within equity is included in the income statement for the period.

Fair values

For securities 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.

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

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 the expected discounted cash flows.

The fair value of unquoted derivatives is determined either by discounted cash flows, (internal) pricing models or by reference to broker's quotes.

Property and equipment

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

Freehold land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on a straight line basis over the estimated useful lives of other property and equipment as follows:

Buildings	20 years
Motor vehicles	3 years
Furniture, fixtures and equipment	3 to 8 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is derecognised.



3 SIGNIFICANT ACCOUNTING POLICIES - continued

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 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.

Leases

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

Derivatives

Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet.

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

In relation to effective fair value hedges, any gain or loss from remeasuring the hedging instrument to fair value as well as related changes in fair value of the item being hedged are recognised immediately in the income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included in the initial measurement of the cost of the related asset or liability.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.



3 SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment and uncollectibility of financial assets

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

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

Trade and settlement date accounting

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

Fiduciary assets

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

Offsetting

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

Foreign currencies

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

Segment reporting

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

4 INTEREST AND SIMILAR INCOME

	2006 AED'000	2005 AED'000
Interest on money market and inter bank transactions	31,898	141,198
Interest on loans and advances to customers	263,960	196,278
Interest on investments	10,237	6,526
Others	139	422
	306,234	344,424



5 INTEREST EXPENSES AND SIMILAR CHARGES

	2006 AED'000	2005 AED'000
Interest and expenses on inter bank transactions	13,656	10,985
Interest paid to customers	77,403	158,651
Interest paid on interest rate swaps	8,953	7,482
	100,012	177,118

6 OTHER OPERATING INCOME

	2006 AED'000	2005 AED'000
Charges recovered from customers	13,833	11,639
Income from participation in Initial Public Offerings	261	4,610
Premium received on options/forward contracts	4,692	2,869
Income from collections	2,463	2,328
Others	9,035	938
	30,284	22,384

7 PROPERTY AND EQUIPMENT

	<i>Freehold land and buildings AED'000</i>	<i>Motor vehicles, furniture, fixtures and equipment AED'000</i>	<i>Capital work- in-progress AED'000</i>	<i>Total AED'000</i>
Cost				
At 1 January 2006	21,320	41,030	468	62,818
Additions during the year	-	3,784	28	3,812
Disposals	-	(7,810)	-	(7,810)
At 31 December 2006	21,320	37,004	496	58,820
Depreciation				
At 1 January 2006	16,096	29,162	-	45,258
Charge for the year	-	4,544	-	4,544
Relating to disposals	-	(7,658)	-	(7,658)
At 31 December 2006	16,096	26,048	-	42,144
Net carrying value at 31 December 2006	5,224	10,956	496	16,676
Net carrying value at 31 December 2005	5,224	11,868	468	17,560

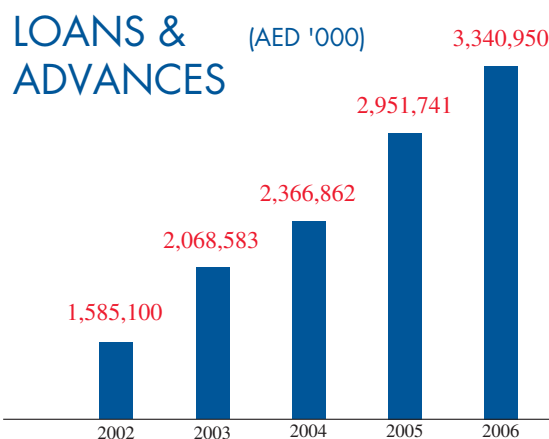
The cost of freehold land included above is AED 5,224,000 (2005: AED 5,224,000).



8 LOANS AND ADVANCES

The composition of the loans and advances portfolio is as follows:

	2006 AED'000	2005 AED'000
(a) By type		
Overdrafts	996,103	983,454
Loans	1,833,763	1,518,097
Loans against trust receipts	438,425	356,795
Bills discounted	95,962	98,633
Other cash advances	70,728	68,168
Bills drawn under letters of credit	20,408	31,280
Gross amount of loans and advances	3,455,389	3,056,427
Less: Provision for impairment of loans and advances	(96,894)	(91,156)
Interest in suspense	(17,545)	(13,530)
Net amount of loans and advances	3,340,950	2,951,741
(b) By economic sector		
Government	180,699	87,886
Trade	925,827	766,886
Personal loans	1,161,467	1,058,570
Manufacturing	676,134	678,685
Construction	157,422	151,575
Services	158,795	147,355
Financial institutions	99,648	46,736
Transport and communication	54,607	73,651
Public Sector	21,962	23,900
Agriculture	18,528	21,104
Others	300	79
	3,455,389	3,056,427
(c) By geographical area:		
Within UAE	3,397,824	3,018,982
Other Middle East countries	57,565	37,445
	3,455,389	3,056,427





8 LOANS AND ADVANCES - continued

Loans and advances are stated net of interest in suspense and provision for impairment of loans and advances. The movements for interest in suspense and provisions are as follows:

	2006		2005	
	<i>Interest in suspense AED'000</i>	<i>Impairment provisions AED'000</i>	<i>Interest in suspense AED'000</i>	<i>Impairment provisions AED'000</i>
Balance at 1 January	13,530	91,156	10,750	82,168
Provided during the year	-	21,452	-	21,773
Released during the year	-	(656)	-	(3,375)
	-	20,796	-	18,398
Suspended during the year	6,229	-	4,553	-
Released during the year	(183)	-	(422)	-
Amounts written off during the year	(2,031)	(15,058)	(1,351)	(9,410)
Balance at 31 December	17,545	96,894	13,530	91,156

At 31 December 2006 loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 108.4 million (2005: 110.8 million).

9 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the number of shares outstanding during the year as follows:

	2006	2005
Net profit for the year net of directors' remuneration fees of AED 1,350,000 (2005: AED 1,350,000)	AED 156,804,000	AED 153,484,000
Number of shares of AED 1 each outstanding during the year	635,460,000	630,037,376
Basic earnings per share	AED 0.25	AED 0.24

The earnings per share of AED 0.30 as reported for 2005 has been adjusted for the effect of the shares issued in 2006 as a result of the scrip dividend.

No figures for diluted earnings per share have been presented as the bank has not issued any instruments which would have an impact on earnings per share when exercised.



10 CASH AND BALANCES WITH UAE CENTRAL BANK

	2006 AED'000	2005 AED'000
Cash on hand	25,527	31,264
Balances with UAE Central Bank:		
Clearing accounts	(27,623)	19,669
Reserve requirements	191,947	178,831
Certificates of deposit	302,000	130,000
	491,851	359,764

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

11 INVESTMENTS

	2006 AED'000	2005 AED'000
Trading		
Equity Quoted	10,781	28,678
Held to maturity		
Debt Quoted	58,767	25,000
Unquoted	-	36,729
	58,767	61,729
Available for sale		
Debt Quoted	122,578	54,840
Unquoted	-	18,619
	122,578	73,459
Equity Quoted	13,120	36,001
Unquoted	2,592	362
	15,712	36,363
	138,290	109,822
Total	207,838	200,229

As at 31 December 2006 investments in debt instruments with floating interest rates amounted to AED 135,253,000 (2005: AED 98,459,000).

Held to maturity

It is management's intention to hold the investments till maturity. In the opinion of management, the fair value of the unquoted investments is not materially different from their carrying value.

**12 OTHER ASSETS**

	2006 AED'000	2005 AED'000
Interest receivable	14,048	7,786
Positive fair value of derivatives (Note 17)	812	3,411
Prepayments and other assets	123,413	82,024
	138,273	93,221

13 DUE TO CUSTOMERS

	2006 AED'000	2005 AED'000
Term and call deposits	2,123,580	1,770,556
Current accounts	1,092,639	1,081,542
Saving accounts	57,003	53,403
	3,273,222	2,905,501

14 OTHER LIABILITIES

	2006 AED'000	2005 AED'000
Interest payable	20,222	16,332
Staff related provisions	28,068	24,189
Negative fair values of derivatives (Note 17)	1,447	2,737
Others	45,681	33,085
	95,418	76,343

Included in other liabilities is AED 1 million (2005: AED 14.83 million) collected by the Bank as part of two local entities' initial public offering of shares.

Staff related provisions

The aggregate employee entitlement liability comprises:

	2006 AED'000	2005 AED'000
Employees' end of service benefits	21,886	19,448
Other liabilities	6,182	4,741
	28,068	24,189

**14 OTHER LIABILITIES** - continued

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

	2006 AED'000	2005 AED'000
Liability as at 1 January	19,448	18,395
Expense recognised in the income statement	4,381	3,161
End of service benefit paid	(1,943)	(2,108)
Liability as at 31 December	21,886	19,448

In the opinion of management, no significant difference would have arisen had the provision for employees' end of service benefits been calculated on an actuarial basis.

15 SHARE CAPITAL AND RESERVES**a) Share capital**

The authorised, issued and fully paid share capital of the Bank comprises 635,460,000 (2005: 508,368,000 shares of AED 1 each).

At an Extraordinary General Assembly held on 22 February 2006, the Bank's shareholders approved an increase in the issued share capital of the Bank to AED 635,460,000 by means of a scrip dividend of 127,092,000 shares of AED 1 each.

An Extraordinary General Assembly is to be held during February 2007 to approve an increase in the Bank's issued share capital to enable the proposed scrip dividend of 76,255,000 shares of AED 1 each (2005: 127,092,000 shares of AED 1 each) to be made.

b) Special reserve

Article 82 of Union Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

c) Statutory reserve

Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) Dividends

The directors have proposed a scrip dividend amounting to AED 76,255,000 at AED 0.12 per share of AED 1 each and a cash dividend of AED 50,837,000 at AED 0.08 per share of AED 1 each (2005: scrip dividend of AED 127,092,000 at AED 0.25 per share of AED 1 each). These are subject to the approval of the shareholders at the Annual General Assembly to be held during February 2007 as well as approval of the regulatory authorities.

e) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

**16 RELATED PARTY TRANSACTIONS**

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Bank, and all Directors of the Bank and companies in which such shareholders and Directors have a significant interest and key management personnel. All the 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 and transactions during the year with related parties were as follows:

	2006 AED'000	2005 AED'000
Directors, their related entities and key management personnel		
Loans and advances	274,321	255,677
Customer deposits	29,650	24,862
Commitments and contingencies	203,371	202,241

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

	2006 AED'000	2005 AED'000
Directors, their related entities and key management personnel		
Interest income	19,354	12,518
Interest expense	1,303	640
Director's remuneration	1,350	1,350

Compensation of the key management personnel is as follows:

	2006 AED'000	2005 AED'000
Salaries and other benefits	7,024	5,860

	2006	2005
Number of key management personnel	11	7

The Bank has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 1,587,800 (2005: AED 1,460,100). The property rentals are negotiated each year at market rates.



17 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.

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

31 December 2006

	Positive fair value AED'000	Negative fair value AED'000	Notional amounts by terms to maturity			
			Notional amount AED'000	Within 3 months AED'000	3 - 12 months AED'000	1 - 5 years AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	509	413	619,965	467,408	152,557	-
Foreign currency options	219	219	187,662	162,995	24,667	-
Interest rate swaps	84	815	146,916	-	-	146,916
	812	1,447	954,543	630,403	177,224	146,916

31 December 2005

	Positive fair value AED'000	Negative fair value AED'000	Notional amounts by terms to maturity			
			Notional amount AED'000	Within 3 months AED'000	3 - 12 months AED'000	1 - 5 years AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	210	233	798,818	798,818	-	-
Foreign currency options	1,432	1,432	197,534	146,606	50,928	-
Interest rate swaps	1,769	1,072	183,645	-	91,822	91,823
	3,411	2,737	1,179,997	945,424	142,750	91,823



17 DERIVATIVES - continued

Derivative product types

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

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

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 64% (2005: 72%) of the Bank's derivative contracts are entered into with other financial institutions and less than 36% (2005: 28%) of the fair value of favourable contracts is with any individual counterparty at the balance sheet date.

Purpose of derivatives

In the normal course of meeting the needs of the Bank's customers, the bank is party to forward foreign exchange and option contracts, interest rate swaps and forward rate agreements. In addition, as part of its asset and liability management, the Bank uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

The bank uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate loans. In such cases, the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

Since strategic hedging does not qualify for special hedge accounting, forward foreign exchange and option contracts are accounted for as trading instruments.



18 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments

The Bank's contractual amounts in respect of letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses and require a payment of a fee. Since commitments may expire without being drawn down, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit related commitments all of which mature within one year or less:

	2006 AED'000	2005 AED'000
Contingent liabilities		
Letters of credit	421,736	347,303
Guarantees and acceptances	1,734,498	1,600,899
	2,156,234	1,948,202
Commitments		
Irrevocable commitments to extend credit:		
Original term to maturity of one year or less	-	-
Original term to maturity of more than one year	1,416,227	1,242,193
	1,416,227	1,242,193

19 SEGMENTAL ANALYSIS

Primary segment information

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

- Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;
- Corporate banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of placements with and acceptances from other banks, through treasury and wholesale banking.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

**19 SEGMENTAL ANALYSIS** – continued

Segmental information for the year ended 31 December 2006 was as follows:

	<i>Retail Banking AED'000</i>	<i>Corporate Banking AED'000</i>	<i>Treasury AED'000</i>	<i>Total AED'000</i>
Interest and other income	55,488	291,312	30,054	376,854
Profit for the year	22,084	115,942	20,128	158,154
Segment assets	562,226	2,890,289	1,337,147	4,789,662
Segment liabilities	1,030,978	2,329,074	336,736	3,696,788

Segmental information for the year ended 31 December 2005 was as follows:

	<i>Retail Banking AED'000</i>	<i>Corporate Banking AED'000</i>	<i>Treasury AED'000</i>	<i>Total AED'000</i>
Interest and other income	37,686	213,555	182,920	434,161
Profit for the year	13,364	75,728	65,742	154,834
Segment assets	454,960	2,577,739	1,099,914	4,132,613
Segment liabilities	1,769,485	1,207,778	196,883	3,174,146

Secondary segment information

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

20 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The bank manages credit risk by setting limits for individual borrowers, and groups of borrowers, products and for geographical and industry segments. The bank also monitors credit exposures, and continually assesses the credit worthiness of counterparties. In addition, the bank obtains security where appropriate, enters into master netting arrangements and collateral arrangements with counterparties and limits the duration of exposures.

For details of the composition of loans and advances portfolio refer to note 8. For a geographical distribution of assets, liabilities and off-balance sheet items refer to note 21.



21 CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS

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 geographic location.

The distribution of assets, liabilities and off - balance sheet items by geographic region and industry sector was as follows. The distribution by geographical region is based on the location of the assets, liabilities and off - balance sheet items.

	2006			2005		
	Assets AED'000	Liabilities and equity AED'000	Contingent liabilities and derivatives AED'000	Assets AED'000	Liabilities and equity AED'000	Contingent liabilities and derivatives AED'000
Geographical Area						
United Arab Emirates	4,385,910	4,499,954	2,369,138	3,674,117	3,946,883	2,146,555
Other Middle East Countries	378,893	194,352	32,303	414,513	152,422	39,247
Europe	4,250	91,894	583,216	11,803	12,968	886,664
USA	14,921	3,244	86	24,990	-	1,080
Rest of the world	5,688	218	126,034	7,190	20,340	54,653
Total	4,789,662	4,789,662	3,110,777	4,132,613	4,132,613	3,128,199
Economic Sectors						
Commercial and business	3,223,878	2,791,025	1,919,034	2,984,674	2,587,541	1,874,659
Banks and financial institutions	1,198,761	613,466	1,137,891	901,927	420,967	1,189,483
Government entities	180,699	218,817	-	87,886	111,324	-
Others	186,324	1,166,354	53,852	158,126	1,012,781	64,057
Total	4,789,662	4,789,662	3,110,777	4,132,613	4,132,613	3,128,199

22 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 Asset and Liability Committee.



23 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 Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

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

The effective interest rate for loans and advances has been computed excluding non-performing loans amounting to AED 108.4 million (2005: AED 110.8 million).

The Bank's interest rate sensitivity position, based on contractual repricing or maturity dates, whichever dates are earlier, is as follows:

At 31 December 2006

	<i>Effective interest rate %</i>	<i>Less than 3 months AED'000</i>	<i>From 3 to 6 months AED'000</i>	<i>From 6 months to 1 year AED'000</i>	<i>From 1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Not exposed to interest rate risk AED'000</i>	<i>Total AED'000</i>
ASSETS								
Cash and balances								
with UAE Central Bank	5.25	292,000	10,000	-	-	-	189,851	491,851
Due from banks	5.32	569,714	-	-	-	-	24,360	594,074
Loans and advances	7.89	2,465,229	202,973	227,986	436,896	13,912	108,393	3,455,389
Investments	5.08	124,944	25,000	22,037	-	-	35,857	207,838
Property and equipment		-	-	-	-	-	16,676	16,676
Other assets		-	-	-	-	-	138,273	138,273
Provision for impairment of loans and advances and interest in suspense		-	-	-	-	-	(114,439)	(114,439)
Total assets		3,451,887	237,973	250,023	436,896	13,912	398,971	4,789,662
LIABILITIES AND SHAREHOLDERS' FUNDS								
Due to banks	4.47	210,991	-	-	-	-	117,157	328,148
Customer deposits	4.62	1,419,662	257,491	280,235	223,195	-	1,092,639	3,273,222
Other liabilities		-	-	-	-	-	95,418	95,418
Shareholders' funds		-	-	-	-	-	1,092,874	1,092,874
Total liabilities and shareholders' funds		1,630,653	257,491	280,235	223,195	-	2,398,088	4,789,662
Total interest rate sensitivity gap		1,821,234	(19,518)	(30,212)	213,701	13,912	(1,999,117)	
Cumulative interest rate sensitivity gap		1,821,234	1,801,716	1,771,504	1,985,205	1,999,117	-	



23 INTEREST RATE RISK - continued

At 31 December 2005

	Effective interest rate %	Less than 3 months AED'000	From 3 to 6 months AED'000	From 6 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000	Not exposed to interest rate risk AED'000	Total AED'000
ASSETS								
Cash and balances								
with UAE Central Bank	4.25	130,000	-	-	-	-	229,764	359,764
Due from banks	4.24	464,743	-	-	-	-	45,355	510,098
Loans and advances	6.64	1,521,589	910,068	258,533	251,826	3,608	110,803	3,056,427
Investments	5.08	-	-	25,000	91,823	18,365	65,041	200,229
Property and equipment	-	-	-	-	-	-	17,560	17,560
Other assets	-	-	-	-	-	-	93,221	93,221
Provision for impairment of loans and advances and interest in suspense	-	-	-	-	-	-	(104,686)	(104,686)
Total assets		2,116,332	910,068	283,533	343,649	21,973	457,058	4,132,613
LIABILITIES AND SHAREHOLDERS' FUNDS								
Due to banks	4.37	163,444	1,836	-	-	-	27,022	192,302
Customer deposits	2.41	1,005,873	267,103	328,661	222,322	-	1,081,542	2,905,501
Other liabilities	-	-	-	-	-	-	76,343	76,343
Shareholders' funds	-	-	-	-	-	-	958,467	958,467
Total liabilities and shareholders' funds		1,169,317	268,939	328,661	222,322	-	2,143,374	4,132,613
Total interest rate sensitivity gap		947,015	641,129	(45,128)	121,327	21,973	(1,686,316)	
Cumulative interest rate sensitivity gap		947,015	1,588,144	1,543,016	1,664,343	1,686,316	-	

24 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 Bank had the following significant long/(short) net exposures denominated in foreign currencies:

	2006 AED'000	2005 AED'000
US Dollar	(2,340)	(2,832)
Euro	(143)	263
Pound Sterling	173	(145)

The AED/US Dollar dealing rate fixed by the UAE Central Bank has remained virtually unchanged since November 1980.



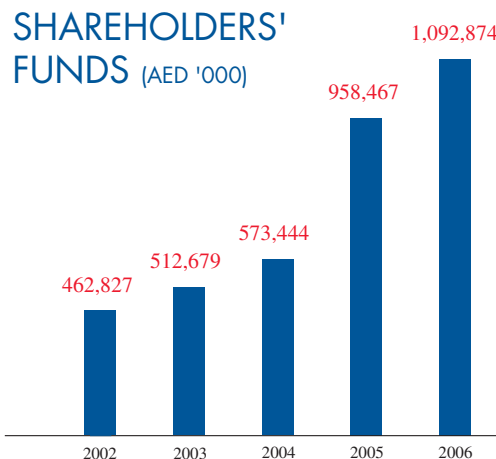
25 LIQUIDITY RISK

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.

Maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

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

	Total AED'000	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000	Over 1 year AED'000	Items with no maturity AED'000
ASSETS						
Cash and balances with UAE Central Bank	491,851	481,851	10,000	-	-	-
Due from banks	594,074	594,074	-	-	-	-
Loans and advances	3,455,389	1,381,555	476,920	531,631	1,065,283	-
Investments	207,838	-	-	-	181,358	26,480
Property and equipment	16,676	-	-	-	-	16,676
Other assets	138,273	118,506	12,982	6,785	-	-
Provision for impairment of loans and advances and interest in suspense	(114,439)	(114,439)	-	-	-	-
Total	4,789,662	2,461,547	499,902	538,416	1,246,641	43,156
LIABILITIES AND SHAREHOLDERS' FUNDS						
Due to banks	328,148	144,503	-	183,645	-	-
Customer deposits	3,273,222	2,512,302	257,491	280,235	223,194	-
Other liabilities	95,418	71,774	-	-	-	23,644
Shareholders' funds	1,092,874	-	-	-	-	1,092,874
Total	4,789,662	2,728,579	257,491	463,880	223,194	1,116,518





25 LIQUIDITY RISK – continued

The maturity profile of assets and liabilities at 31 December 2005 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to 6 months AED'000	6 months to 1 year AED'000	Over 1 year AED'000	Items with no maturity AED'000
ASSETS						
Cash and balances with UAE Central Bank	359,764	359,764	-	-	-	-
Due from banks	510,098	510,098	-	-	-	-
Loans and advances	3,056,427	1,307,261	457,061	435,842	856,263	-
Investments	200,229	-	-	25,000	110,188	65,041
Property and equipment	17,560	-	-	-	-	17,560
Other assets	93,221	87,473	1,390	4,358	-	-
Provision for impairment of loans and advances and interest in suspense	(104,686)	(104,686)	-	-	-	-
Total	4,132,613	2,159,910	458,451	465,200	966,451	82,601
LIABILITIES AND SHAREHOLDERS' FUNDS						
Due to banks	192,302	43,550	1,836	-	146,916	-
Customer deposits	2,905,501	2,087,415	267,103	328,661	222,322	-
Other liabilities	76,343	56,895	-	-	-	19,448
Shareholders' funds	958,467	-	-	-	-	958,467
Total	4,132,613	2,187,860	268,939	328,661	369,238	977,915

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book-value under the historical cost method and fair value estimates. The fair value of the Bank's on - balance sheet financial instruments is not materially different from the carrying value at year end, since assets and liabilities are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits, frequently repriced. The fair value of the Bank's derivative contracts is shown in note 17.