CONTENTS

بنك رأس الخيمة الوطني (ش.م.ع)

RAKBANK

THE NATIONAL BANK OF RAS AL-KHAIMAH (P.S.C.)

Head Office	RAKBANK Building, Oman Street, P.O. Box: 5300 Al-Nakheel, Ras Al Khaimah	Telephone: 07-2281127 Telefax: 07-2283238 E-mail: nbrakho@emirates.net.ae SWIFT: NRAKAEAK
Treasury	Dubai Main Office, Sultan Business Center P.O. Box: 1531, Dubai	Telephone: 04-3372322/04-3359491 Telefax: 04-3352135
Personal Banking	Telex: 99210 NBRAKFX EM	Telephone: 04-2248000 Telefax: 04-3370122
Commercial Banking		Telephone: 04-337 0081 Telefax: 04-337 0402

BRANCHES

Al Nakheel Branch
RAKBANK Building, Oman Street,
P.O. Box: 5300,
Al-Nakheel, Ras Al-Khaimah
Telephone: 07-2281127
Telefax: 07-2284202

Badr Branch
RAKBANK Building, Badr Brigade II,
P.O. Box: 5300, Ras Al Khaimah
Telephone: 07-2448822
Telefax: 07-2448811

Al Dhait Branch
Naser Mohhamed Al Sharhan Bldg.,
Al Dhair Area
P. O. Box: 5300, Ras Al Khaimah
Telephone: 07-2351147
Telefax: 07-2351178

RAK Town Branch
RAKBANK Building, Al-Sabkha Area,
P. O. Box: 164,
Ras Al-Khaimah Town
Telephone: 07-2333744
Telefax: 07-2333932

Al Rams Branch
RAKBANK Building, Al Rams Area
P.O. Box: 6035, Ras Al Khaimah
Telephone: 07-2662434
Telefax: 07-2662838

Sha'am Branch
RAKBANK Building
Sha'am Main Street
P.O. Box: 6868, Ras Al Khaimah
Telephone: 07-2666833
Telefax: 07-2667335

Al Manei Branch
RAKBANK Building, Al Manei Area
P.O. Box: 5300, Ras Al Khaimah
Telephone: 04-8525999
Telefax: 04-8525757

Deira Branch
Sheikh Mohamed Building,
Al Maktoom Street
P. O. Box: 1531, Dubai
Telephone: 04-2248000
Telefax: 04-2223738

Deira Souq Branch
Mohd Abdulla and Juma Belhool Bldg.,
Al Khoor Street, Daghaya,
P. O. Box: 1531, Deira Dubai
Telephone: 04-2130833
Telefax: 04-2295040

Bur Dubai Branch
Abdul Rahman Ibrahim Abu Humaid Bldg.
P. O. Box: 1531 Dubai
Telephone: 04-5088500
Telefax: 04-3968600

Dubai Main Branch
Sultan Business Center
Sheikh Zayed Rd.
P. O. Box: 1531, Dubai.
Telephone: 04-2248000
Telefax: 04-3370342

Emmar Business Park Branch
Building No. 4,
P.O.Box 1531, Sheikh Zayed Road,
Telephone: 04-2130000
Telefax: 04-3619222

Sh. Zayed Road Branch
DNIC Building,
Sheikh Zayed Rd.
P. O. Box 28221, Dubai
Telephone: 04-2248000
Telefax: 04-3435281

Marina Diamond Branch
Shop No. S02, Emmar Properties
P.O.Box 1531, Sheikh Zayed Road,
Telephone: 04-4224811
Telefax: 04-4224813

Kalba Branch
Sheikha Fawaghi Bint
Saqr Al-Qasimi Building, Kalba
P. O. Box: 11171,
Telephone: 09-2778707
Telefax: 09-2778881

Sharjah Branch
New Zubaidi Bldg., King Faisal Street,
Sharjah, P. O. Box 41010,
Telephone: 06-5746888
Telefax: 06-5746363

Khorfakhan Branch
Khorfakhan Central Market
P. O. Box: 10114
Khorfakhan, Sharjah
Telephone: 09-2371900
Telefax: 09-2371800

Abu Dhabi Branch
H H Sheikh Khalid Bin Saqr Al Qasimi Building, Tourist Club Area
P.O. Box: 2289,
Telephone: 02-6448227
Telefax: 02-6444318

Khalidiya Branch
Heirs of Hussain Ali Al Omairah Building, Khalidiya Area,
P. O. Box: 2289,
Telephone: 02-6666658
Telefax: 02-6656305

Al Ain Branch
Sheikh Khalifa Street
Ahmed Helal Al-Kuwaity Building
P.O. Box: 1130,
Telephone: 03-7644222
Telefax: 03-7644212

Auditors
PricewaterhouseCoopers,
Level 40 Emirates Towers
P.O. Box: 11907, Dubai,
Telephone: 04-3043100
Telefax: 04-3304100

Shareholders

The Government of Ras Al-Khaimah	52.75%
Citizens of the United Arab Emirates	34.80%
Others	12.45%

Board of Directors

H.E. Shaikh Omar bin Saqr Al-Qasimi	Chairman
H.E. Shaikh Salim bin Sultan Al-Qasimi	Member
Mr. Hamad Abdulaziz Al Sagar	Member
Mr. Abdul Aziz Abdulla Al Zaabi	Member
Mr. Essa Ahmed Abu Shuraija Al Neaimi	Member
Mr. Majid Saif Al Ghurair	Member
Mr. Ali Samir Al Shihabi	Member
Mr. Yousuf Obaid Essa	Member

Management

Mr. Graham Honeybill	General Manager
Mr. Murray Sims	Head of Personal Banking
Mr. Anil Sukhia	Head of Corporate Banking
Mr. Malcolm D'Souza	Head of Treasury and International
Mr. Venkat Raghavan	Head of Finance
Mr. Saleh Ali Saleh Saeed Al Zaabi	Head of Wealth Management and Branches

Directors' report to the shareholders

We are pleased to present the Annual Report of your bank for 2007. Our performance during the year has been most encouraging and in line with the strategic initiatives introduced during the past few years.

In addition to improving the various key performance indicators, the bank is also progressing well to achieve its internal goals which include increased revenues from non interest income, continued investment in technology and further emiritisation of the workforce.

Financial Performance

The net profit for 2007 at AED 401.38 million grew by approximately 55% over the previous year. This was assisted by increase in net interest income which at AED 559.77 million was up 47% while other income consisting of fees, commission and foreign exchange income which at AED 343 million grew by approximately 24%. This is in line with the bank's efforts to increase non-interest revenue.

Retail Banking remains the key driver of the Bank and 2007 was another successful year with an increase in the customer base across all the products offered including retail loans, credit cards, mortgages, investment services and small business lending. The Bank is one of the leading commercial providers of mortgages in Dubai and this is an area where we see considerable potential in the future. The Bank has increased its network of branches to 20 and there are plans to open 5 more branches in 2008.

Whilst the restructuring of Corporate Banking with a renewed focus of mid-market customer segment is beginning to show results, the performance of the division was also aided by some one off recovery during the year.

Total assets as at 31 December 2007 were AED 10.97 billion, a 24 % increase from 2006 resulting from a growth in loans and advances of AED 8.17 billion. The bank's investment portfolio at AED 626 million grew by 26% and the diversification has resulted in significant improvement in the yield from these assets.

The growth in the asset book has been supported by a combination of increases in customer deposits, medium term bank borrowings and an increase in shareholders' equity. Customer deposits increased by AED 1.38 billion during the year 2007 through a healthy combination of increases in transaction accounts and fixed term deposits.

Following the successful launch of the bank's inaugural Euro Medium Term Notes (EMTN) program in 2005, a further USD 100 million was issued in the last quarter of 2007.

The bank's capital adequacy ratio at the end of the year closed at 13%, against a minimum of 10 % prescribed by the UAE Central Bank. The ratio will further improve to over 16% after appropriations of profits for 2007.

RAKBANK has again remained in the forefront of Emiratisation maintaining a national ratio in its work force of 41.58% in 2007. The bank's continued emphasis on quality service to its customers ensured that it maintained its leadership position in the category of best bank for service quality in the UAE.

Directors' report to the shareholders (continued)

Rating

The bank is currently rated by the following leading rating agencies. Their current ratings are as follows:

Rating Agency	Deposits	Financial Strength	Outlook	Support
Moody's	Baa1 / P-2	D+	-	-
Fitch	A-/ F2	-	Stable	1
Capital Intelligence	BBB+/A2	BBB+	Stable	3

Dividend

The Directors have recommended a stock dividend of 20% and a cash dividend of 10%. This proposal is in line with the bank's strategy to reward its shareholders while at the same time ensuring a robust internal generation of equity in support of future business expansion.

Outlook for 2008

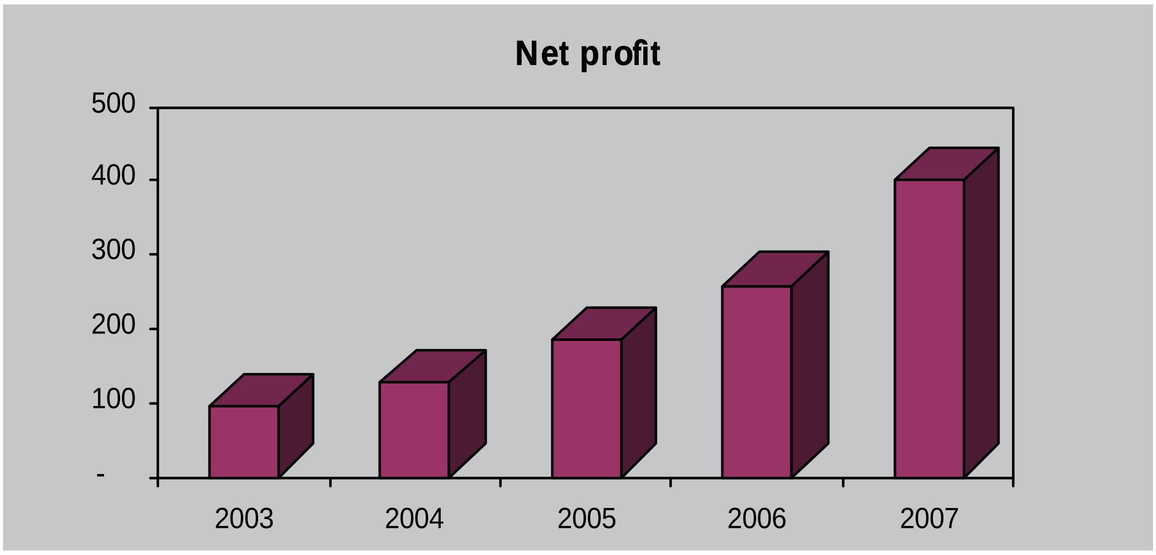
With the continuing strong oil prices, strong increase in population and emphasis on diversification of the UAE economy we expect the UAE to witness another year of solid growth in 2008. Performance in the banking sector is also expected to remain strong. The bank's retail strategy will be expanded in 2008 with emphasis on products tailored to our customers need, and on service quality. Delivery channels will be enhanced through a combination of E-channels and opening of new Branches.

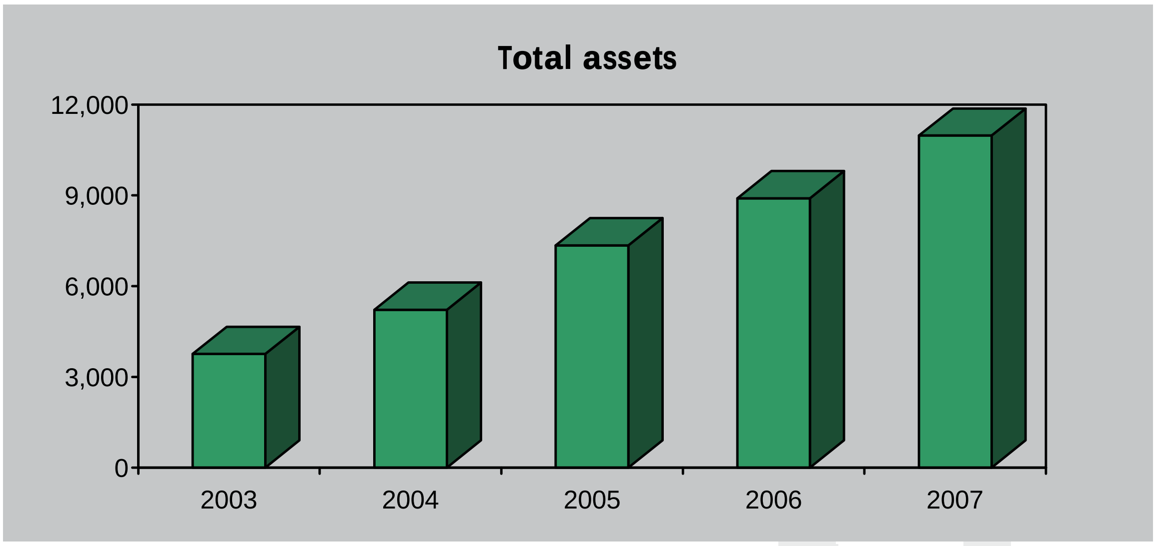
We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the bank for their outstanding performance during 2007 and the bank's customers for their continued support.

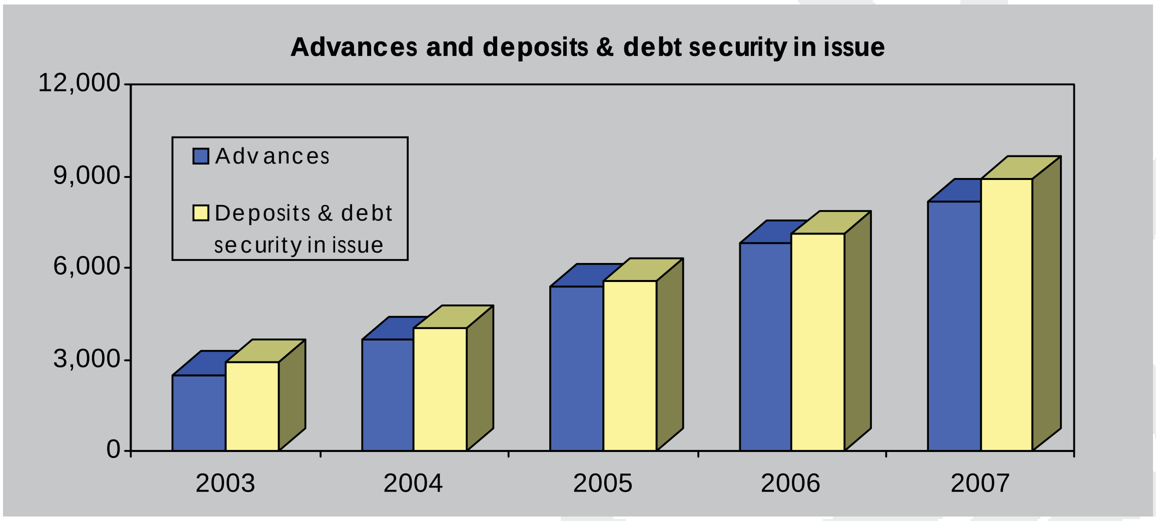
Board of Directors
27 January 2008

Financial highlights

All figures shown are in millions of UAE Dirhams.

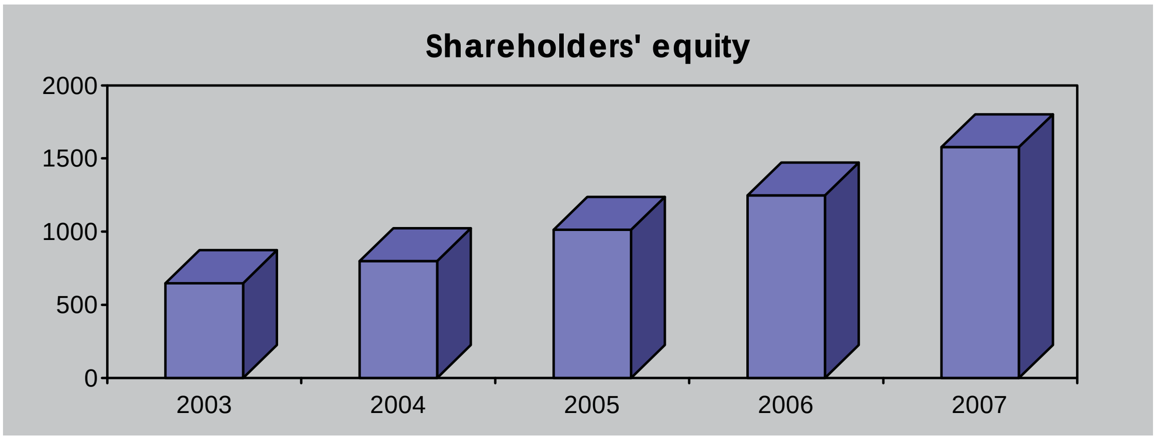


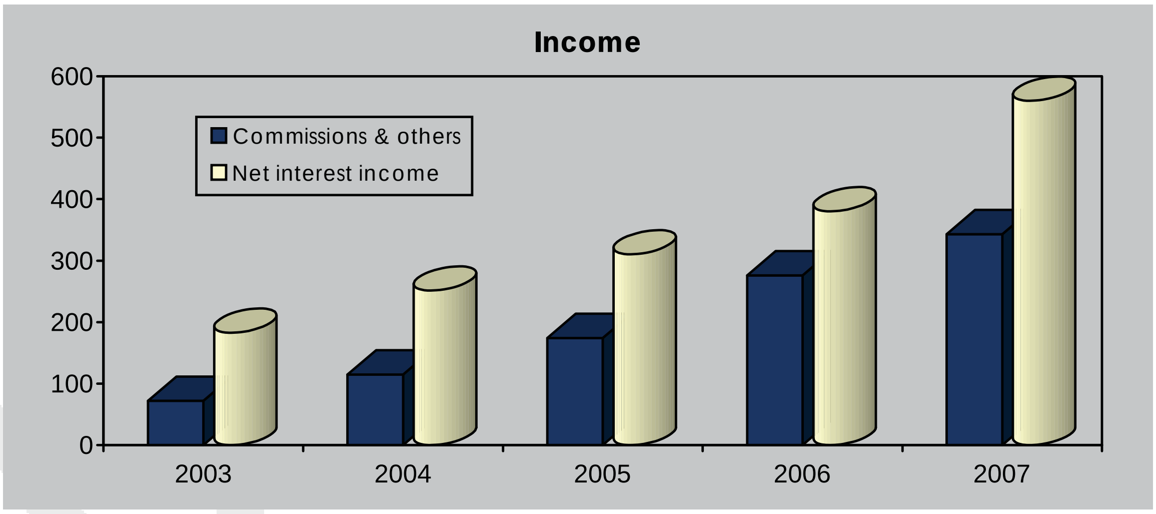




Financial highlights (continued)

All figures shown are in millions of UAE Dirhams.





PRICEWATERHOUSECOOPERS

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e-mail: pwc.emirates@ae.pwc.com

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.)

Report on the financial statements

We have audited the accompanying financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the bank") which comprise the balance sheet as at 31 December 2007 and the income statement, statement of changes in shareholders' 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. 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting 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 to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.)

Opinion

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

Report on other legal and regulatory requirements

As required by the UAE Federal Law No (8) of 1984, as amended, we report that:

(i) we have obtained all the information we considered necessary for the purpose of our audit;

(ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the bank;

(iii) the bank has maintained proper books of account and the financial statements are in agreement therewith;

(iv) the financial information included in the Directors' report is consistent with the books of account of the bank; and

(v) nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2007.

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
4 February 2008

Jacques E Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

Balance sheet

	Notes	At 31 December 2007 AED'000	2006 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	1,493,604	832,760
Due from other banks	6	336,094	445,118
Loans and advances	7	8,172,483	6,813,469
Investment securities	8	626,155	498,699
Property and equipment	9	115,834	85,302
Other assets	10	229,609	166,946
Total assets		10,973,779	8,842,294
LIABILITIES			
Due to other banks	11	233,613	234,104
Due to customers	12	7,239,466	5,850,011
Debt security in issue	13	1,642,984	1,282,224
Other liabilities	14	258,703	213,394
Provision for employees' end of service benefits	15	22,012	15,463
Total liabilities		9,396,778	7,595,196
SHAREHOLDERS' EQUITY			
Share capital	16	616,688	536,250
Share premium	17	110,350	110,350
Retained earnings		343,974	234,688
Other reserves	18	505,989	365,810
Total shareholders' equity		1,577,001	1,247,098
Total liabilities and shareholders' equity		10,973,779	8,842,294

These financial statements were approved for issue by the Board of Directors on 27 January 2008 and were signed on its behalf by:

…………………………………………… H.E. Sheikh Omar Bin Saqr Al-Qasimi
Chairman

…………………………………………… Graham Honeybill
General Manager

The notes on pages 11 to 49 form an integral part of these financial statements

Income statement

	Notes	Year ended 31 December 2007 AED'000	2006 AED'000
Interest income	21	874,925	647,514
Interest expense	21	(315,150)	(267,119)
Net interest income		559,775	380,395
Fee and commission income	22	275,875	226,923
Foreign exchange income		28,036	17,176
Income from investment securities	8(a)	28,556	22,857
Other operating income		10,698	9,154
Operating income		902,940	656,505
Operating expenses	23	(425,280)	(312,776)
Provision for impairment of loans and advances net of write off/back	7(d)	(76,272)	(84,919)
Net profit for the year		401,388	258,810
Earnings per share			
Basic	25	AED 0.65	AED 0.42

The notes on pages 11 to 49 form an integral part of these financial statements

Statement of changes in shareholders' equity

	Notes	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2006		412,500	110,350	175,259	314,779	1,012,888
Net profit for the year		-	-	258,810	-	258,810
Transfer to legal reserve	18	-	-	(25,881)	25,881	-
Transfer to voluntary reserve	18	-	-	(24,750)	24,750	-
Transfer to credit risk reserve	18	-	-	(25,000)	25,000	-
Net change in available-for-sale investment securities	8,18	-	-	-	(24,600)	(24,600)
Issue of bonus shares	16	123,750	-	(123,750)	-	-
At 31 December 2006		536,250	110,350	234,688	365,810	1,247,098
Net profit for the year		-	-	401,388	-	401,388
Transfer to legal reserve	18	-	-	(40,139)	40,139	-
Transfer to voluntary reserve	18	-	-	(16,087)	16,087	-
Transfer to credit risk reserve	18	-	-	(50,000)	50,000	-
Transfer to general banking reserve	18	-	-	(25,000)	25,000	-
Net change in available-for-sale investment securities	8,18	-	-	-	8,953	8,953
Issue of bonus shares	16	80,438	-	(80,438)	-	-
Cash dividend	26	-	-	(80,438)	-	(80,438)
At 31 December 2007		616,688	110,350	343,974	505,989	1,577,001

The notes on pages 11 to 49 form an integral part of these financial statements

Cash flow statement

	Notes	Year ended 31 December 2007 AED'000	2006 AED'000
Operating activities			
Net profit for the year		401,388	258,810
Adjustments:			
Net charge for provision for impairment of loans and advances	7(d)	76,272	84,919
Depreciation	23	22,198	19,693
Provision for employees' end of service benefits	15	9,009	5,545
Gain on disposal of property and equipment		(261)	(177)
Amortisation of discount relating to investment securities held-to-maturity	8	(138)	(133)
Amortisation of discount relating to debt security in issue	13	760	(429)
Operating cash flows before changes in assets and liabilities and payment of employees' end of service benefits		509,228	368,228
Payment of employees' end of service benefits	15	(2,460)	(1,443)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	5	(674,511)	(44,656)
Due from other banks with maturities over 3 months		(92,071)	36,729
Loans and advances net of provisions and amounts written off/(back)	7	(1,435,286)	(1,555,088)
Other assets	10	(62,663)	(92,977)
Due to other banks	11	(491)	(316,809)
Due to customers	12	1,389,455	986,330
Other liabilities	14	45,309	87,422
Net cash used in operating activities		(323,490)	(532,264)
Investing activities			
Purchase of investment securities	8	(118,365)	(202,016)
Purchase of property and equipment	9	(53,209)	(10,757)
Proceeds from sale of property and equipment		740	265
Net cash used in investing activities		(170,834)	(212,508)
Financing activities			
Debt security in issue	13	360,000	550,950
Dividend paid		(80,438)	-
Net cash provided by financing activities		279,562	550,950
Net decrease in cash and cash equivalents		(214,762)	(193,822)
Cash and cash equivalents, beginning of the year		962,599	1,156,421
Cash and cash equivalents, end of the year	28	747,837	962,599

The notes on pages 11 to 49 form an integral part of these financial statements

Notes to the financial statements for the year ended 31 December 2007

1 Incorporation and principal activities

The National Bank of Ras Al-Khaimah ("the bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the bank is located at the National Bank of Ras Al-Khaimah building, Oman Street, Al Nakheel, Ras Al-Khaimah.

The bank is engaged in providing commercial banking services through a network of twenty branches in the UAE.

2 Significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards, (IFRS). The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, amendments and interpretations to published standards effective from 1 January 2007

The following new standard and amendment to published standards, which is relevant to the bank, is mandatory for accounting periods beginning on or after 1 January 2007 and, therefore, is applicable to the bank with effect from its fiscal year beginning 1 January 2007:

IFRS 7 – Financial Instruments: Disclosures, and a complementary amendment to International Accounting Standard ("IAS") 1, Presentation of Financial Statements – Capital Disclosures (effective 1 January 2007). Additional disclosures of significance arising from the implementation of IFRS 7 and the amendments to IAS 1 have been made in these financial statements and include: terms and conditions of pledges on financial assets; valuation techniques of investments securities; concentration of risk on financial instruments; maturity analyses of the financial liabilities; sensitivity analysis to market risk; and the disclosures required by the amendments to IAS 1 relating to management of capital.

Notes to the financial statements for the year ended 31 December 2007

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to published standards effective from 1 January 2007 (continued)

Management has assessed the impact of the following relevant interpretations to published standards and has concluded that their impact is not material to the bank's financial statements.

IFRIC 9 – Reassessment of Embedded Derivatives (effective from annual periods commencing 1 June 2006).

IFRIC 10 – Interim Financial Reporting and Impairment (effective from annual periods commencing 1 November 2006).

Standards and interpretations to published standards that are not yet effective

The following new relevant standard and interpretation to a published standard are not effective and are unlikely to have a material impact in the period of initial application:

IFRS 8 – Operating Segments (effective from annual periods commencing 1 January 2009).

IFRIC 11 (IFRS 2) – Group and Treasury Share Transactions (effective from annual periods commencing 1 March 2007).

(b) Loans and advances and provision for impairment

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are carried at amortised cost using the effective interest method.

The bank assesses at each balance sheet date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the bank will not be able to collect all amounts due.

The criteria that the bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

2 Significant accounting policies (continued)

(b) Loans and advances and provision for impairment (continued)

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the bank's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate prevailing at inception of the loan or advance or at the current effective interest rate in respect of a variable rate loan.

The provision for loan impairment includes losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and the current economic climate in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the income statement. Subsequent recoveries are credited to the income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the income statement.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Notes to the financial statements for the year ended 31 December 2007 (continued)

2 Significant accounting policies (continued)

(c) 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 investment securities. Management determines the classification of its investments at initial recognition.

Financial asset 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 as held for trading 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 they 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.

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. If the bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available-for-sale.

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 advances, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Regular-way 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 – 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 and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets 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 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. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

2 Significant accounting policies (continued)

(c) Investment securities (continued)

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

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 income from investment securities in the income statement.

Dividends on available-for-sale equity instruments are recognised in the income statement when the entity'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 income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement.

(d) Due from banks

Amounts due from banks are stated at amortised cost less any amounts written off and provision for impairment, if any.

(e) Property and equipment

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

	Years
Buildings	15
Computer equipment	4 - 10
Furniture, fixtures and equipment	4 - 5
Leasehold improvements	2 - 5
Motor vehicles	3 - 4

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

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.

Notes to the financial statements for the year ended 31 December 2007 (continued)

2 Significant accounting policies (continued)

(e) Property and equipment (continued)

Gains and losses on disposal of property and equipment are determined by comparing the sale proceeds to the carrying value of the asset disposed and are taken into account in determining operating income. Repairs and renewals expenses are charged to the income statement when the expenditure is incurred.

(f) Employee benefits

Pension contributions are made in respect of UAE national employees 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 estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to balance sheet date. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the balance sheet date.

(g) 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.

(h) Debt security in issue

Debt security in issue is recognised initially at fair value, net of transaction costs incurred. Debt security in issue is subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the debt security in issue, using the effective interest method.

(i) Foreign currencies

Items included in the 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 the UAE Dirham 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 income statement.

2 Significant accounting policies (continued)

(j) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest earned whilst holding investment securities is reported as income from investment securities in the income statement.

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.

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.

(k) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Fees earned on the banks fiduciary activities are recognised over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(l) Cash and cash equivalents

For the purpose 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 statutory deposit required to be maintained with the UAE Central Bank.

(m) Fiduciary assets

Assets arising on the bank’s fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements.

(n) 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 whose revenues, results or assets are ten percent or more of the aggregate of all the segments are reported separately.

Notes to the financial statements for the year ended 31 December 2007 (continued)

2 Significant accounting policies (continued)

(o) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(p) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(q) Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the bank's shareholders.

3 Financial risk management

3.1 Risk management review

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.

The bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3.2 Credit risk

Credit risk is defined as the risk that the bank's customer, clients or counter parties or other financial instruments fails to perform or unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the bank to suffer a financial loss.

3 Financial risk management (continued)

3.2 Credit risk (continued)

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the bank, thereby resulting in the value of the assets to fall. As credit risk is the bank's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the bank.

The credit policy provides the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, corporate and SME assets.

The Head of Credit and his team including Collections are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Policy, Product Programs, Credit circulars and comply with regulatory norms.

The bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries. The bank has a Product Program Guide that sets limits of exposure and lending criteria. The bank also has credit limits that set out the lending and borrowing limits from other banks.

Following from the comment above, the bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an on going basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Executive Committee and the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored ongoing basis.

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements

	31 December 2007	31 December 2006
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from other banks	336,094	445,118
Loans and advances:		
Loans to individual customers	7,615,099	6,243,855
Loans to corporate customers	557,384	569,614
Investment securities	601,555	483,899
Other assets	132,276	120,680
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments, guarantees, acceptances and other financial facilities	3,318,598	2,575,291
	12,561,006	10,438,457

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The above table represents a worse case scenario of credit risk exposure to the bank at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 94% of the total maximum exposure is derived from loans and advances and amounts due from banks (2006: 94%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loans and advances portfolio, amounts due from banks and investment securities based on the following:

- 94% of the of loans and advances is categorised in the top grades of the bank's internal grading system (2006 – 92%);
- Mortgage loans and auto loans, which together represents a significant portion of loans and advances are backed by collateral;
- The bank continuously reviews its credit policy and changes are made based on the Management Information System (MIS) reports and the pattern that emerge from these reports.
- A significant portion of investments securities comprise debt instruments that are issued by reputable organisations which are quasi governmental.

3.2.2 Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2007		31 December 2006	
	Loans and advances to customers	Amounts due from banks	Loans and advances to customers	Amounts due from banks
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	7,706,122	336,094	6,424,446	445,118
Past due but not impaired	491,340	-	411,008	-
Individually Impaired	192,842	-	173,165	-
Gross	8,390,304	336,094	7,008,619	445,118
Less: allowance for impairment	(217,821)	-	(195,150)	-
Net	8,172,483	336,094	6,813,469	445,118

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

The total impairment provision for loans and advances is AED 217.8 million (2006: AED 195.1 million) of which AED 122.8 million (2006 - AED126.1 million) represents the individually impaired loans and advances and the remaining amount of AED 95 million (2006 -AED 69 million) represents the portfolio provision.

Neither past due nor impaired

	31 December 2007		31 December 2006	
	Loans and advances to customers	**Amounts due from banks**	**Loans and advances to customers**	**Amounts due from banks**
	AED'000	AED'000	AED'000	AED'000
Loans and advances				
- Personal loans	7,151,949	-	5,868,680	-
- Corporate loans	554,173	-	555,766	-
Due from banks	-	336,094	-	445,118
Gross	7,706,122	336,094	6,424,446	445,118

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the bank.

Retail banking loans are graded into buckets according to the number of installments overdue. All loans that are not in default of interest payment and instalment are graded as bucket 0, while loans and advances that are in default of interest payment and instalments are graded upwards from bucket 1 onwards, depending on the number of days past due. The corporate banking and SME credit matrix is used to rate loans under various characteristics. There are six categories of performing loans and three categories of non-performing loans. These ratings are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and instalments. The credit policy has set internal lending limits for various industry exposures. The corporate loan portfolio is reviewed on a quarterly basis. Further mortgage loans and auto loans, which together represent a significant portion of loans and advances, are backed by collateral.

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Past due but not impaired *(continued)*

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	31 December 2007			31 December 2006		
	Personal loans AED'000	Corporate loans AED'000	Total AED'000	Personal loans AED'000	Corporate loans AED'000	Total AED'000
Past due up to 30 days	312,390	-	312,390	249,574	-	249,574
Past due 30 - 60 days	114,781	-	114,781	90,668	-	90,668
Past due 60-90 days	64,169	-	64,169	70,766	-	70,766
Total	491,340	-	491,340	411,008	-	411,008
Fair value of collateral	279,448	-	279,448	241,507	-	241,507

Individually Impaired

The breakdown of the gross amount of individually impaired loans and advances, along with the fair value of related collateral held by the bank as security, are as follows:

	31 December 2007			31 December 2006		
	Personal loans AED'000	Corporate loans AED'000	Total AED'000	Personal loans AED'000	Corporate loans AED'000	Total AED'000
Individually impaired loans	150,182	42,660	192,842	100,525	72,640	173,165
Fair value of collateral	(43,073)	-	(43,073)	(34,615)	-	(34,615)
Net	107,109	42,660	149,769	65,910	72,640	138,550

Loans and advances renegotiated

There were no material loans and advances that were renegotiated during the year.

3.2.3 Investment securities

Investment securities mainly comprise debt securities issued by the Government and local and foreign reputable organisations.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Investment securities (continued)

The table below presents an analysis of investment securities by rating agency designation at 31 December 2007 and 31 December 2006, based on external's ratings or their equivalent

	31 December 2007		31 December 2006	
	Debt instruments AED'000	Equity securities AED'000	Debt instruments AED'000	Equity securities AED'000
AAA	171,787	-	171,693	-
AA- to AA+	141,504	-	91,825	-
A- to A+	178,606	-	110,191	-
Lower than A-	72,928	-	73,460	-
Unrated	36,730	24,600	36,730	14,800
Total	601,555	24,600	483,899	14,800

Repossessed collateral

During 2007, the bank has not taken possession of any collateral held as security other than bank deposits which may have been utilised in settlement of credit facilities. In the case of retail auto loans where the underlying asset is repossessed as a part of recovery process these are disposed off in an auction by authorised third parties and the bank does not carry any such assets in its books.

3.2.4 Concentration of risks of financial assets with credit risk exposure

Excessive risk concentration

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

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

Geographical risk concentration

The following table breaks down the bank's main credit exposure at their carrying amounts, categorised by geographical region as of 31 December 2007 and 31 December 2006.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.4 Concentration of risks of financial assets with credit risk exposure (continued)

Geographical risk concentration (continued)

For this table, the bank has allocated exposures to regions based on the country of domicile of its counterparties:

	UAE AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2007				
Due from banks	194,654	138,727	2,713	336,094
Loans and advances:				
- Personal loans	7,533,584	27,618	53,897	7,615,099
- Corporate loans	553,358	3,600	426	557,384
Investment securities				
- Held-to-maturity	116,921	-	18,365	135,286
- Available-for-sale	410,940	-	54,929	465,869
Other assets	130,034	-	2,242	132,276
Total	8,939,491	169,945	132,572	9,242,008
31 December 2006				
Due from banks	197,422	239,407	8,289	445,118
Loans and advances:				
- Personal loans	6,174,821	23,142	45,892	6,243,855
- Corporate loans	567,529	-	2,085	569,614
Investment securities:				
- Held-to-maturity	116,783	-	18,365	135,148
- Available-for-sale	293,656	-	55,095	348,751
Other assets	110,047	-	10,635	120,682
Total	7,460,258	262,549	140,361	7,863,168

3.3 Market risk

The bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO), which is made up of the General Manager, the Head of Treasury, the Head of Finance, the Head of Credit, the Head of Corporate Banking and the Head of Personal Banking, meets on a regular basis to monitor and manage market risk.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3. Financial risk management (continued)

3.3 Market risk (continued)

ALCO is responsible to formalise the bank's key financial indicators and ratios, set the thresholds to manage and monitor the market risk and also analyse the sensitivity of the bank's interest rate and maturity mis-matches. ALCO also guides the bank's investment decisions and provides guidance in terms of interest rate and currency movements.

3.3.1 Price risk

The bank has very limited exposures to price risk as most of its investments are in interest bearing securities.

3.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk exposures arise due to mismatches of fixed interest rate assets and floating interest rate liabilities. This is monitored through the use of a detailed gap report and stress tests to analyse the impact anticipated movements in interest rates.

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.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

The table below sets out the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000	Total AED'000	Interest rate %
At 31 December 2007							
Assets							
Cash and balances with the UAE Central Bank	630,000	255,000	-	-	608,604	1,493,604	3.10-4.70
Due from other banks	313,864	-	-	-	22,230	336,094	1.00-6.15
Loans and advances	1,702,590	184,477	4,221,032	2,061,692	2,692	8,172,483	3.00-27.00
Investment securities	323,914	277,641	-	-	24,600	626,155	3.11-6.59
Property and equipment and other assets	-	-	-	-	345,443	345,443	-
Total	2,970,368	717,118	4,221,032	2,061,692	1,003,569	10,973,779	
Liabilities and shareholders' equity							
Due to other banks	231,000	-	-	-	2,613	233,613	2.00-5.41
Due to customers	4,889,312	623,491	8,493	-	1,718,170	7,239,466	0.25-6.00
Debt security in issue	-	1,642,984	-	-	-	1,642,984	5.17-5.83
Other liabilities and provision for employee's end of service benefits	-	-	-	-	280,715	280,715	-
Shareholders' equity	-	-	-	-	1,577,001	1,577,001	-
Total	5,120,312	2,266,475	8,493	-	3,578,499	10,973,779	
Interest rate sensitivity gap	(2,149,944)	(1,549,357)	4,212,539	2,061,692			

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	No interest bearing AED'000	Total AED'000	Interest rate %
At 31 December 2006							
Assets							
Cash and balances with the UAE Central Bank	329,000	-	-	-	503,760	832,760	4.90
Due from other banks	416,778	-	-	-	28,340	445,118	5.21
Loans and advances	1,638,706	2,021,827	1,602,286	1,546,726	3,924	6,813,469	10.38
Investment securities	238,745	245,154	-	-	14,800	498,699	4.90
Property and equipment and other assets	-	-	-	-	252,248	252,248	-
Total	2,623,229	2,266,981	1,602,286	1,546,726	803,072	8,842,294	
Liabilities and shareholders' equity							
Due to other banks	186,316	36,727	-	-	11,061	234,104	5.67
Due to customers	3,839,096	790,417	14,725	-	1,205,773	5,850,011	3.66
Debt security in issue	-	1,282,224	-	-	-	1,282,224	5.92
Other liabilities and provision for employees' end of service benefits	-	-	-	-	228,857	228,857	-
Shareholders' equity	-	-	-	-	1,247,098	1,247,098	
Total	4,025,412	2,109,368	14,725	-	2,692,789	8,842,294	
Interest rate sensitivity gap	(1,402,183)	157,613	1,587,561	1,546,726			

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The bank assumes a fluctuation in EIBOR rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date, with all other variables held constant:

	2007	**2006**
	AED'000	AED'000
Effect of a ± 25 bps change in EIBOR	6,437	4,725

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 9,970 million (2006: 8,039 million) interest bearing assets and AED 7,395 million (2006: 6,149 million) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The bank's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the bank does maintain a long US dollar position within limits approved by the bank's Assets and Liabilities Committee (ALCO).

At 31 December 2007 and 31 December 2006, bank had the following significant net exposures denominated in foreign currencies:

At 31 December 2007	**AED**	**USD**	**Others**	**Total**
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Cash and balances with the UAE Central Bank	1,425,019	68,585	-	1,493,604
Due from other banks	88,058	175,452	72,584	336,094
Loans and advances	8,017,134	102,539	52,810	8,172,483
Investment securities	205,717	420,438	-	626,155
Other assets	130,034	1,923	319	132,276
Total	9,865,962	768,937	125,713	10,760,612
Financial liabilities				
Due to other banks	231,698	1,531	384	233,613
Due to customers	6,456,491	627,678	155,297	7,239,466
Debt security in issue	357,434	1,285,550	-	1,642,984
Other liabilities	124,139	19,250	389	143,778
Total	7,169,762	1,934,009	156,070	9,259,841
Net balance sheet position	2,696,200	(1,165,072)	(30,357)	1,500,771
At 31 December 2006				
Total financial assets	7,844,958	757,383	108,387	8,710,728
Total financial liabilities	5,279,555	2,081,429	144,230	7,505,214
Net balance sheet position	2,565,403	(1,324,046)	(35,843)	1,205,514

The bank has no exposure to foreign currency risk as its functional currency is pegged to USD, the currency in which the bank has the largest short net open position at 31 December 2007.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

Off-balance sheet items:

At 31 December 2007	**AED** AED'000	**USD** AED'000	**Others** AED'000	**Total** AED'000
Loan commitments	2,712,214	-	-	2,712,214
Guarantees, acceptances and other financial facilities	373,496	149,773	83,115	606,384
Total	3,085,710	149,773	83,115	3,318,598
At 31 December 2006				
Loan commitments	1,927,338	-	-	1,927,338
Guarantees, acceptances and other financial facilities	301,322	283,254	63,377	647,953
	2,228,660	283,254	63,377	2,575,291

3.4 Liquidity risk

3.4.1 Liquidity risk management process

The bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the bank's internal guidelines mandated by ALCO. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors liquidity ratios on a regular basis.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.2 Non-derivative cash flows

The table below presents the cash flows payable by the bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
Due to other banks	133,710	103,700	-	-	237,410
Due to customers	6,621,826	642,923	8,776	-	7,273,525
Debt security in issue	-	-	1,873,675	-	1,873,675
Other liabilities	143,778	-	-	-	143,778
Total	6,899,314	746,623	1,882,451	-	9,528,388
At 31 December 2006					
Due to other banks	11,061	126,202	109,189	-	246,452
Due to customers	5,062,424	817,349	14,935	-	5,894,708
Debt security in issue	-	-	1,572,901	-	1,572,901
Other liabilities	138,875	-	-	-	138,875
Total	5,212,360	943,551	1,697,025	-	7,852,936

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.3 Derivative cash flows

The bank's derivatives that will be settled on a gross basis include foreign exchange contracts.

The table below analyses bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1 -3 months	3 -12 months	1-5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2007						
Foreign exchange contracts						
– Outflow	76,697	-	-	-	-	76,697
– Inflow	77,353	-	-	-	-	77,353
At 31 December 2006						
Foreign exchange contracts:						
– Outflow	50,254	65,553	-	-	-	115,807
– Inflow	50,440	65,616	-	-	-	116,056

3.4.4 Off-balance sheet items

At 31 December 2007	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Loan commitments	2,637,558	74,656	-	2,712,214
Guarantees, acceptances and other financial facilities	606,384	-	-	606,384
Total	3,243,942	74,656	-	3,318,598
At 31 December 2006				
Loan commitments	1,877,800	49,538	-	1,927,338
Guarantees, acceptances and other financial facilities	647,953	-	-	647,953
Total	2,525,753	49,538	-	2,575,291

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets. Whilst operational risk cannot be eliminated in its entirety, the bank endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The management of operational risk commenced with the adoption of a formal governance structure under the Risk Management Committee to provide strategic direction oversight and monitoring of the Operational Risk Framework. The Framework incorporates standards for risk that are based on best practice and codify the core governing principles for operational risk management. It ensures that identification, evaluation, control, measurement, monitoring and reporting of operational risks are consistent across the bank.

3.6 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities.

	Fair value		Carrying value	
	2007	2006	2007	2006
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Due from banks	336,094	445,118	336,094	445,118
Loans and advances:				
Loans to individual customers	7,615,099	6,243,855	7,615,099	6,243,855
Loans to corporate customers	557,384	569,614	557,384	569,614
Investment securities	601,555	483,899	601,555	483,899
Other assets	132,276	120,682	132,276	120,682
Financial liabilities				
Due to other banks	233,613	234,104	233,613	234,104
Due to customers	7,235,966	5,850,011	7,239,466	5,850,011
Debt security in issue	1,642,984	1,282,224	1,642,984	1,282,224
Other liabilities	143,778	138,875	143,778	138,875

(i) Due to/from other banks

Due to/from other banks includes inter-bank placements. These are short term and the carrying amount approximates their fair value.

3 Financial risk management (continued)

3.6 Fair values of financial assets and liabilities (continued)

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The carrying amount approximates the fair value of loans and advances.

(iii) Investment securities

Investment securities include interest-bearing debt instruments held-to-maturity and those classified as available-for-sale which are measured at fair value and equity investments. The fair value for available-for-sale debt instruments and equity securities are based on quoted market prices. The carrying value of held-to-maturity debt securities approximates their fair value.

(iv) Due to customers

The estimated fair value of amounts due to customers with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The fair values of interest-bearing deposits are not significantly different from the carrying value as they are short term.

(v) Debt security in issue

The carrying value of debt security in issue approximates its fair value as it carries a variable interest rate.

Notes to the financial statements for the year ended 31 December 2007 (continued)

3 Financial risk management (continued)

3.7 Capital management

For assessment of current capital requirements, set at a minimum of 10% by the Central Bank of the UAE, the bank calculates its risk asset ratio in accordance with guidelines established by the Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is also in line with the assessment of capital adequacy ratio in accordance with Basel I Accord and is analysed as follows:

	2007 AED'000	2006 AED'000
Tier 1 capital		
Ordinary share capital	616,688	536,250
Share premium	110,350	110,350
Statutory and other reserves	361,111	285,480
Retained earnings	73,811	50,648
Total	1,161,960	982,728
Tier 2 capital		
Fair value reserve for available-for-sale investments	6,144	2,115
Total capital base	1,168,104	984,843
Risk Weighted Assets		
On balance sheet	8,396,718	7,201,212
Off balance sheet	403,437	443,104
Total risk weighted assets	8,800,155	7,644,316
Risk asset ratio (%)	13.27	12.88

In its preparedness for compliance with Basel II the bank has decided to adopt standardised approach for credit risk and basic indicator approach for operational risk in addition to the charge for market risk. Initial estimates by the bank indicate that there will not be any additional capital requirement to maintain the present risk ratio.

Notes to the financial statements for the year ended 31 December 2007 (continued)

4 Critical accounting estimates, and judgements in applying accounting policies

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.

(a) Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the 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. To the extent that the provision estimates differs by +/-5%, the provision would be estimated AED 3.8 million higher or lower.

(b) 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 judgement, 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. There has been no significant decline in the fair value of available-for-sale equity investments.

(c) Held-to-maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. 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 class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Notes to the financial statements for the year ended 31 December 2007 (continued)

5 Cash and balances with the UAE Central Bank

	2007 AED'000	2006 AED'000
Cash in hand (Note 28)	144,997	138,794
Current account with the UAE Central Bank (Note 28)	33,817	49,687
Statutory deposit with the UAE Central Bank	429,790	315,279
Certificates of deposit with the UAE Central Bank	885,000	329,000
	1,493,604	832,760

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the bank. Cash in hand and balances with Central Bank and Statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry interest rate of between 3.10% and 5.05%.

6 Due from other banks

	2007 AED'000	2006 AED'000
Placements with other banks	313,864	416,778
Demand deposits	22,230	28,340
	336,094	445,118

Amount due from other banks carry interest rate of between 1.00% and 6.15%.

7 Loans and advances

7(a) Loans and advances

		2007	2006
Personal loans		7,793,471	6,380,213
Corporate loans		596,833	628,406
Total loans and advances		8,390,304	7,008,619
Provision for impairment	7 (c)	(217,821)	(195,150)
Net loans and advances		8,172,483	6,813,469

7(b) Analysis of loans and advances

	2007	2006
Loans	7,801,345	6,432,988
Overdrafts	471,470	469,333
Loans against trust receipts	91,845	81,991
Bills discounted	22,539	22,397
Others	3,105	1,910
Total loans and advances	8,390,304	7,008,619

Notes to the financial statements for the year ended 31 December 2007 (continued)

7 Loans and advances (continued)

7(c) Provision for impairment

31 December 2007	Personal loans AED'000	Corporate loans AED'000	Total AED'000
Balance brought forward	136,358	58,792	195,150
Net charge for provision for impairment	93,068	(19,253)	73,815
Written off during the year	(51,054)	(90)	(51,144)
Balance carried forward	178,372	39,449	217,821
31 December 2006			
Balance brought forward	111,499	57,841	169,340
Net charge for provision for impairment (Note 7(d))	86,193	951	87,144
Written off during the year	(61,334)	-	(61,334)
Balance carried forward	136,358	58,792	195,150

7(d) Net charge for the year

31 December 2007	Personal loans AED'000	Corporate loans AED'000	Total AED'000
Net charge for provision for impairment	93,068	(19,253)	73,815
Write off during the year	2,457	-	2,457
	95,525	(19,253)	76,272
31 December 2006			
Net charge for provision for impairment	86,193	951	87,144
Write back during the year	(2,225)	-	(2,225)
	83,968	951	84,919

Notes to the financial statements for the year ended 31 December 2007 (continued)

8 Investment securities

	2007 AED'000	2006 AED'000
Securities available-for-sale		
Quoted equity securities	24,600	14,800
Quoted debt securities	178,377	110,005
Unquoted debt securities	287,892	238,746
	490,869	363,551
Securities held-to-maturity		
Quoted debt securities	135,286	135,148
	135,286	135,148
Total investment securities	626,155	498,699

8(a) Income from investment securities

Income from investment securities represents interest income earned on debt securities.

8(b) Movement in investment securities

The movement in investment securities is summarised as follows:

	Securities available-for-sale AED'000	**Securities held–to–maturity** AED'000	**Total** AED'000
At 1 January 2006	186,135	135,015	321,150
Purchases	202,016	-	202,016
Changes in fair value	(24,600)	-	(24,600)
Amortisation of discount	-	133	133
At 31 December 2006	363,551	135,148	498,699
Purchases	118,365	-	118,365
Changes in fair value	8,953	-	8,953
Amortisation of discount	-	138	138
At 31 December 2007	490,869	135,286	626,155

Notes to the financial statements for the year ended 31 December 2007 (continued)

9 Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Other assets AED'000	Total AED'000
31 December 2007				
Cost				
1 January 2007	59,839	21,628	86,509	167,976
Additions	710	8,304	44,195	53,209
Disposals/write off	-	(132)	(863)	(995)
31 December 2007	60,549	29,800	129,841	220,190
Depreciation				
1 January 2007	8,265	14,357	60,052	82,674
Charge for the year	790	4,341	17,067	22,198
Disposals/write off	-	(3)	(513)	(516)
31 December 2007	9,055	18,695	76,606	104,356
Net book amount				
31 December 2007	51,494	11,105	53,235	115,834
31 December 2006				
Cost				
1 January 2006	59,619	20,763	77,724	158,106
Additions	220	976	9,561	10,757
Disposals/write off	-	(111)	(776)	(887)
31 December 2006	59,839	21,628	86,509	167,976
Depreciation				
1 January 2006	7,411	10,772	45,597	63,780
Charge for the year	854	3,608	15,231	19,693
Disposals/write off	-	(23)	(776)	(799)
31 December 2006	8,265	14,357	60,052	82,674
Net book amount				
31 December 2006	51,574	7,271	26,457	85,302

Included in land and buildings is land costing AED 46.51 million (2006: AED 46.51 million).

Other assets include computer equipment, furniture fixtures and equipment and motor vehicles.

Notes to the financial statements for the year ended 31 December 2007 (continued)

10 Other assets

	2007 AED'000	2006 AED'000
Cheques held for collection	77,827	79,007
Prepayments and deposits	27,610	23,745
Others	124,172	64,194
	229,609	166,946

11 Due to other banks

	2007 AED'000	2006 AED'000
Term deposits	231,000	223,043
Demand deposits	2,613	11,061
	233,613	234,104

12 Due to customers

	2007 AED'000	2006 AED'000
Time deposits	4,213,648	3,803,279
Savings deposits	277,728	219,720
Call deposits	450,442	305,514
Current accounts	2,297,648	1,521,498
	7,239,466	5,850,011

There is no significant concentration of customer deposits.

13 Debt security in issue

	2007 AED'000	2006 AED'000
US$ medium-term note	1,645,550	1,285,550
Less: debt security issue costs	(2,566)	(3,326)
	1,642,984	1,282,224

The bank has established a Medium Term Note Program for USD 500 million, of which USD 200 million was issued in 2005, USD 150 million in March 2006 and USD100 million was issued in December 2007. The note matures in 2010 and carries an interest rate of six months Libor +55. The effective interest in 2007 was 5.88% (2006: 5.92%).

14 Other liabilities

	2007 AED'000	2006 AED'000
Managers cheques issued	85,829	55,117
Accrued expenses	76,284	30,898
Others	96,590	127,379
	258,703	213,394

Notes to the financial statements for the year ended 31 December 2007 (continued)

15 Provision for employees' end of service benefits

	2007 AED'000	2006 AED'000
At 1 January	15,463	11,361
Charge for the year (Note 24)	9,009	5,545
Payment during the year	(2,460)	(1,443)
At 31 December	22,012	15,463

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2007 and 31 December 2006, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 6% (2006: 6%). Under this method an assessment has been made of an employee's expected service life with the bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 5% (2006: 5%).

16 Share capital

The authorised, issued and fully paid share capital of the bank comprises 616.68 million shares of AED 1 each (2006: 536.25 million shares of AED 1 each).

At the meeting of the shareholders held on 25 February 2007, a stock dividend (issue of bonus shares) and cash dividend for 2006 at 15% respectively of the issued and paid up capital amounting to AED 160.87 million (2005: AED 123.75 million) were approved.

17 Share premium

Share premium represents amounts received from shareholders in excess of the nominal value of the shares allotted to them. In accordance with the Articles of Association of the bank, share premium is a part of the legal reserve of the bank and is not available for distribution.

Notes to the financial statements for the year ended 31 December 2007 (continued)

18 Other reserves

	Legal reserve	Voluntary Reserve	General banking risk reserve	Credit risk reserve	Fair value reserve	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2006	102,979	82,500	50,000	50,000	29,300	314,779
Additions during the year	25,881	24,750	-	25,000	(24,600)	51,031
At 31 December 2006	128,860	107,250	50,000	75,000	4,700	365,810
Additions during the year	40,139	16,087	25,000	50,000	8,953	140,179
At 31 December 2007	168,999	123,337	75,000	125,000	13,653	505,989

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 net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

In accordance with the Articles of Association of the bank, 10% of the net profit for the year is transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. This reserve is available for distribution.

The bank maintains a general reserve to address the risks inherent in the bank's operating environment. Contributions to this reserve are made at the discretion of the Directors.

The bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors.

19 Contingencies and commitments

	2007	2006
	AED'000	AED'000
Guarantees	461,577	520,223
Letters of credit	111,468	95,479
Acceptances	33,203	32,127
Commitments to extend credit	2,712,214	1,927,338
Other	136	124
	3,318,598	2,575,291

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.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the bank does not generally expect the third party to draw funds under the agreement.

Notes to the financial statements for the year ended 31 December 2007 (continued)

19 Contingencies and commitments (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. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

20 Forward foreign exchange contracts

Forward foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the bank's undelivered spot transactions.

The bank had the following forward exchange transactions outstanding.

	Contract amount AED'000	Fair value AED'000
31 December 2007	77,353	-
31 December 2006	116,056	52

21 Interest income and expense

	2007 AED'000	2006 AED'000
Interest income		
Personal loans	358,625	260,629
Credit cards	190,267	132,614
Commercial loans and overdrafts	201,089	112,598
Auto loans	65,888	88,213
Other banks	20,595	29,396
Deposits with the UAE Central Bank	27,381	15,411
Others	11,080	8,653
	874,925	647,514
Interest expense		
Due to customers	225,256	174,459
Borrowings from other banks	89,894	92,660
	315,150	267,119

	2007 AED'000	2006 AED'000

22 Fee and commission income

	2007 AED'000	2006 AED'000
Fees and commissions	216,042	185,043
Documentary credits and guarantees	6,919	6,181
Transfers	2,595	2,432
Others	50,319	33,267
	275,875	226,923

23 Operating expenses

	2007 AED'000	2006 AED'000
Staff costs (Note 24)	209,339	141,137
Occupancy costs	30,111	19,230
Marketing expenses	22,900	18,784
Depreciation (Note 9)	22,198	19,693
Services	21,233	16,035
Legal and consultancy fees	15,056	10,942
Computer expenses	11,803	7,026
Commission and rebates	6,473	12,029
Others	86,167	67,900
	425,280	312,776

24 Staff costs

	2007 AED'000	2006 AED'000
Salaries and allowances	189,110	127,262
Pension	3,383	2,939
End of service benefits (Note 15)	9,009	5,545
Staff training	1,308	560
Others	6,529	4,831
	209,339	141,137

25 Earnings per share

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

	2007	2006
Net profit for the year in AED	401,388,012	258,809,605
Weighted average number of shares in issue	616,687,500	616,687,500
Basic earnings per share in AED	0.65	0.42

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

Notes to the financial statements for the year ended 31 December 2007 (continued)

26 Dividends

At the meeting held on 27 January 2008, the Board of Directors proposed a stock dividend (issue of bonus shares) at 20% and a cash dividend 10% of the issued and paid up capital amounting to AED 185 million in respect of the year 2007 (2006: stock dividend of 15% and cash dividend of 15% amounting to AED 161 million).

Dividends are not accounted for until they have been approved at the annual general meeting and accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2008 after it has been approved by the shareholders.

27 Related party transactions and balances

Related parties comprise shareholders, key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the year, the bank entered into significant transactions with related parties in the ordinary course of business. The transactions and balances arising from these transactions are as follows:

	2007 AED'000	2006 AED'000
Transactions during the year		
Interest income	2,040	2,256
Interest expense	14,083	11,739
Commission income	473	380
Directors' remuneration	1,333	760
Remuneration payable to key management personnel	14,388	9,010
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	18,313	60,535
- Directors and their related companies	4,975	3,911
	23,288	64,446
Due to customers:		
- Shareholders and their related companies	292,063	351,580
- Directors and their related companies	122,776	38,548
	414,839	390,128
Irrevocable commitments and contingent liabilities		
- Shareholders and their related companies	74,998	54,609
- Directors and their related companies	1,627	4,126
	76,625	58,735

28 Cash and cash equivalents

	2007 AED'000	2006 AED'000
Cash (Note 5)	144,997	138,794
Current account with the UAE Central Bank (Note 5)	33,817	49,687
Certificates of deposit with the UAE Central Bank	325,000	329,000
Due from other banks	244,023	445,118
	747,837	962,599

Notes to the financial statements for the year ended 31 December 2007 (continued)

29 Business segments

The bank is organised into three main business segments:

Retail banking - incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages.

Business banking - incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions.

Treasury and others - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

Primary segment information

	Retail banking AED'000	Business banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
31 December 2007					
External revenue	1,065,222	64,562	88,306	-	1,218,090
Revenues from other segments	201,591	57,391	142,056	(401,038)	-
Total revenues	1,266,813	121,953	230,362	(401,038)	1,218,090
Segment result	379,454	63,835	7,714	34,422	485,425
Unallocated costs	-	-	-	-	(84,037)
Net profit for the year					401,388
Segment assets	7,992,197	553,473	2,295,840	-	10,841,510
Unallocated assets	-	-	-	-	132,269
Total assets					10,973,779
Segment liabilities	5,264,397	1,678,163	2,377,390	-	9,319,950
Unallocated liabilities	-	-	-	-	76,828
Total liabilities					9,396,778

Capital expenditure and depreciation are not disclosed by segment.

Notes to the financial statements for the year ended 31 December 2007 (continued)

29 Business segments (continued)

Primary segment information

	Retail banking AED'000	Business Banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
31 December 2006					
External revenue	802,410	46,040	75,174	-	923,624
Revenues from other segments	102,051	53,055	124,444	(279,550)	-
Total revenues	904,461	99,095	199,618	(279,550)	923,624
Segment result	233,109	38,214	44,132	-	315,455
Unallocated costs	-	-	-	-	(56,645)
Net profit for the year					258,810
Segment assets	6,600,788	526,834	1,571,385	-	8,699,007
Unallocated assets	-	-	-	-	143,287
Total assets					8,842,294
Segment liabilities	3,895,877	1,453,236	2,142,206	-	7,491,319
Unallocated liabilities	-	-	-	-	103,877
Total liabilities					7,595,196

Capital expenditure and depreciation are not disclosed by segment.

30 Fiduciary activities

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2007, such assets amounted to AED 347.29million (2006: AED 287.94 million) and are excluded from the financial statements of the bank.

Notes to the financial statements for the year ended 31 December 2007 (continued)

31 Assets and liabilities maturity profile

The table below analyses assets and liabilities of the bank into relevant maturity groupings based on the remaining years from the balance sheet date to the contractual maturity date.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

At 31 December 2007	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets					
Cash and balances with the UAE Central Bank	1,238,604	255,000	-	-	1,493,604
Due from other banks	336,094	-	-	-	336,094
Loans and advances	1,689,724	160,273	4,259,252	2,063,234	8,172,483
Investment securities	490,869	80,191	55,095	-	626,155
Property and equipment, and other assets	129,042	3,323	4,013	209,065	345,443
Total	3,884,333	498,787	4,318,360	2,272,299	10,973,779
Liabilities and shareholders' equity					
Due to other banks	133,613	100,000	-	-	233,613
Due to customers	6,607,482	623,491	8,493	-	7,239,466
Debt security in issue	-	-	1,642,984	-	1,642,984
Other liabilities and provision for employees' end of service benefits	258,703	-	-	22,012	280,715
Shareholders' equity	-	-	-	1,577,001	1,577,001
Total	6,999,798	723,491	1,651,477	1,599,013	10,973,779
Net liquidity gap	(3,115,465)	(224,704)	2,666,883	673,286	-
At 31 December 2006					
Total assets	3,481,634	306,563	1,817,414	3,236,683	8,842,294
Total liabilities and equity	5,269,324	913,460	1,396,949	1,262,561	8,842,294
Net liquidity gap	(1,787,690)	(606,897)	420,465	1,974,122	-