بنك دبي الإسلامي ش م ع
Dubai Islamic Bank PJSC

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI ISLAMIC BANK (PUBLIC JOINT STOCK COMPANY)

Report on the Financial Statements

We have audited the accompanying financial statements of Dubai Islamic Bank Public Joint Stock Company and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980, Federal Law No. 6 of 1985 and Islamic Sharia'a rules and principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate 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.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of 31 December 2006, their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply, where appropriate, with the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980, Federal Law No. 6 of 1985 and the Sharia'a rules and principles as determined by the Sharia'a Supervisory Board of the Bank.

Report on other Legal and Regulatory Requirements
We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980, Federal Law No. 6 of 1985 and the articles of association of the Bank; proper books of account have been kept by the Bank and its subsidiaries, and the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement with the books of account. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 or Federal Law No. 6 of 1985 have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Ernst & Young

Signed by
Edward B Quinlan
Partner
Registration No. 93

7 February 2007

Dubai, United Arab Emirates

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	*2006* *AED'000*	*2005* *AED'000*
INCOME			
Income from Islamic financing and investing assets	5	**2,441,532**	1,733,647
Income from international murabahat, short term		**525,153**	196,409
Income from investment properties	6	**153,203**	149,906
Income from sale of properties under construction, net	7	**412,710**	141,626
Commissions, fees and foreign exchange income	8	**906,716**	401,294
Share of profits of associates		**16,148**	343
Other income		**120,995**	72,818
TOTAL INCOME		**4,576,457**	2,696,043
EXPENSES			
General and administrative expenses	9	**(1,148,174)**	(569,464)
Provisions for impairment	10	**(76,467)**	(130,173)
Depreciation of investment properties	17	**(10,240)**	(11,612)
TOTAL EXPENSES		**(1,234,881)**	(711,249)
Profit before depositors' share and tax		**3,341,576**	1,984,794
Depositors' share of profits	11	**(1,757,611)**	(918,405)
Profit for the year before tax		**1,583,965**	1,066,389
Income tax	28	**(6,122)**	(3,015)
PROFIT FOR THE YEAR		**1,577,843**	1,063,374
Attributable to:			
Shareholders of the parent		**1,560,093**	1,061,069
Minority interests		**17,750**	2,305
		1,577,843	1,063,374
Basic and diluted earnings per share attributable to the shareholders of the parent	12	**AED 0.71**	AED 0.59

The attached notes 1 to 47 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2006

	Notes	2006 AED'000	2005 AED'000
ASSETS			
Cash and balances with Central Banks	13	**3,111,724**	3,166,104
Balances and deposits with banks		**407,245**	829,116
International murabahat, short term		**14,991,239**	5,657,841
Islamic financing and investing assets	14	**35,255,447**	28,305,912
Properties under construction	15	**2,171,004**	411,092
Properties held for sale	16	**136,585**	132,068
Investment properties	17	**761,213**	749,285
Investments in associates	18	**1,077,901**	86,644
Other investments	19	**3,523,944**	2,012,758
Receivables and other assets	21	**2,465,123**	1,203,374
Property, plant and equipment	22	**495,601**	401,765
Goodwill	23	**36,910**	42,320
Total assets		**64,433,936**	42,998,279
LIABILITIES			
Customers' deposits	25	**47,732,482**	33,391,950
Due to banks and other financial institutions	26	**4,649,900**	4,099,357
Other liabilities	27	**3,155,269**	1,628,155
Accrued zakat	29	**72,035**	39,612
Total liabilities		**55,609,686**	39,159,074
Shareholders' equity			
Attributable to equity holders of the parent:			
Share capital	30	**2,800,000**	1,500,000
ESOP shares	31	-	(8,226)
Statutory reserve	32	**2,761,030**	731,700
Donated land reserve	32	**286,951**	286,951
General reserve	32	**895,000**	595,000
Exchange translation reserve	32	**30,323**	8,320
Cumulative changes in fair value		**544,649**	-
Retained earnings		**43,197**	5,460
Proposed dividends	33	**1,176,000**	598,354
		8,537,150	3,717,559
Minority interests	34	**287,100**	121,646
Total equity		**8,824,250**	3,839,205
Total liabilities and equity		**64,433,936**	42,998,279
Contingent liabilities	35	**12,174,346**	8,081,461

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors dated 7 February 2007.

H. E. Dr. Mohammad K. Kharbash Chairman	H. E. Sultan Saeed Al Mansouri Deputy Chairman	Saad Abdul Razak Group Chief Executive Officer

The attached notes 1 to 47 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2006

	Notes	*2006* AED'000	*2005* AED'000
OPERATING ACTIVITIES			
Profit before tax		**1,583,965**	1,066,389
Adjustments for:			
Provisions for impairment	10	**76,467**	130,173
Depreciation of investment properties	17	**10,240**	11,612
Depreciation of property, plant and equipment	22	**56,553**	30,873
Loss on revaluation of trading investments	5	**35,354**	-
Revaluation of investments at fair value through income statement	5	**52,777**	(254,847)
Write off of goodwill		**5,410**	-
Gain on sale of investment properties	6	**(108,636)**	(90,701)
Income from sale of properties under construction	7	**(412,710)**	(141,626)
Share of profits of associates		**(16,148)**	(343)
Dividend income		**(39,028)**	(34,439)
ESOP expenses		**30,312**	-
		1,274,556	717,091
Changes in operating assets and liabilities			
Trading investments		**(42,437)**	(40,766)
Islamic financing and investing assets		**(7,020,340)**	(10,068,041)
Receivables and other assets		**(1,267,411)**	(647,012)
Customers' deposits		**14,340,532**	7,228,408
Due to banks and other financial institutions		**550,543**	2,682,113
Other liabilities		**1,529,256**	(114,922)
Accrued Zakat		**(37,249)**	(11,414)
Tax paid	28	**(11,553)**	-
Net cash provided by (used in) operating activities		**9,315,897**	(254,543)
INVESTING ACTIVITIES			
Held to maturity investments		**156,996**	(106,893)
Purchase of investments at fair value through income statement		**(367,205)**	(121,934)
Purchase of available for sale investments		**(802,022)**	(173,073)
Proceeds from sale of properties under construction		**978,227**	483,816
Proceeds from disposal of investment properties		**289,984**	465,223
Purchase of investment properties	17	**(203,516)**	(142,485)
Addition to properties under construction	15	**(2,325,429)**	(489,654)
Additions to properties held for sale		**(4,517)**	(55,900)
Dividend income		**39,028**	34,439
Investments in associates		**(975,109)**	(12,735)
Purchase of property, plant and equipment	22	**(124,243)**	(71,001)
Proceeds from sale of property, plant and equipment		**19,378**	2,452
Deposits with banks with maturity over 3 months		**46,478**	-
Exchange and other adjustments		**(9,102)**	1,750
Acquisition of subsidiary	24	**-**	(209,362)
Net cash used in investing activities		**(3,281,052)**	(395,357)

The attached notes 1 to 47 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS - continued
Year ended 31 December 2006

	Notes	2006 AED'000	2005 AED'000
FINANCING ACTIVITIES			
Dividends paid		**(300,000)**	(299,177)
Issue of shares		**3,029,330**	-
ESOP shares acquired		**8,226**	-
Minority interests		**131,224**	1,473
Net cash from (used in) financing activities		**2,868,780**	(297,704)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**8,903,625**	(947,604)
Cash balances acquired on acquisition of subsidiary	24	**-**	805,125
Cash and cash equivalents at the beginning of the year	36	**9,606,583**	9,749,062
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	36	**18,510,208**	9,606,583

The attached notes 1 to 47 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent								
	Share capital AED'000	*ESOP shares AED'000*	*Reserves AED'000*	*Cumulative changes in fair value AED'000*	*Retained earnings AED'000*	*Proposed dividends AED'000*	*Total AED'000*	*Minority interests AED'000*	*Total equity AED'000*
As of 31 December 2005	1,500,000	(8,226)	1,621,971	-	5,460	598,354	3,717,559	121,646	3,839,205
Net movement in cumulative changes in fair value recognised directly in equity	-	-	-	544,649	-	-	544,649	-	544,649
Exchange adjustments	-	-	22,003	-	-	-	22,003	16,480	38,483
Income and expense for the year recognised directly in equity	-	-	22,003	544,649	-	-	566,652	16,480	583,132
Profit for the year	-	-	-	-	1,560,093	-	1,560,093	17,750	1,577,843
Total income and expense for the year	**-**	**-**	**22,003**	**544,649**	**1,560,093**	**-**	**2,126,745**	**34,230**	**2,160,975**
Scrip dividend 2005	300,000	-	-	-	-	(300,000)	-	-	-
Cash dividend – 2005	-	-	-	-	-	(300,000)	(300,000)	-	(300,000)
ESOP shares allocated	-	8,226	-	-	-	-	8,226	-	8,226
Issue of shares	1,000,000	-	2,029,330	-	-	-	3,029,330	98,257	3,127,587
Transfers	-	-	300,000	-	(301,646)	1,646	-	-	-
Cost of share based payments	-	-	-	-	30,312	-	30,312	-	30,312
Zakat	-	-	-	-	(69,672)	-	(69,672)	-	(69,672)
Directors' fees	-	-	-	-	(5,350)	-	(5,350)	-	(5,350)
Proposed cash dividend	-	-	-	-	(980,000)	980,000	-	-	-
Proposed scrip dividend	-	-	-	-	(196,000)	196,000	-	-	-
Other movements	-	-	-	-	-	-	-	32,967	32,967
As of 31 December 2006	**2,800,000**	**-**	**3,973,304**	**544,649**	**43,197**	**1,176,000**	**8,537,150**	**287,100**	**8,824,250**

The attached notes 1 to 47 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent							
	Share capital AED'000	*ESOP shares AED'000*	*Reserves AED'000*	*Retained earnings AED'000*	*Proposed dividends AED'000*	*Total AED'000*	*Minority interests AED'000*	*Total equity AED'000*
As of 31 December 2004	1,500,000	(8,226)	1,190,267	5,378	299,177	2,986,596	10	2,986,606
Income and expense for the year recognised directly in equity – exchange adjustments	-	-	8,320	-	-	8,320	6,497	14,817
Profit for the year	-	-	-	1,061,069	-	1,061,069	2,305	1,063,374
Total income and expense for the year	-	-	8,320	1,061,069	-	1,069,389	8,802	1,078,191
Net movement in donated land reserve	-	-	2,250	-	-	2,250	-	2,250
Minority interest in subsidiary acquired during the year	-	-	-	-	-	-	111,361	111,361
Transfer to reserves	-	-	421,134	(421,134)	-	-	-	-
Dividends paid – 2004	-	-	-	-	(299,177)	(299,177)	-	(299,177)
Zakat	-	-	-	(36,149)	-	(36,149)	-	(36,149)
Directors' fees	-	-	-	(5,350)	-	(5,350)	-	(5,350)
Proposed cash dividend	-	-	-	(299,177)	299,177	-	-	-
Proposed scrip dividend	-	-	-	(299,177)	299,177	-	-	-
Other movements	-	-	-	-	-	-	1,473	1,473
As of 31 December 2005	**1,500,000**	**(8,226)**	**1,621,971**	**5,460**	**598,354**	**3,717,559**	**121,646**	**3,839,205**

The attached notes 1 to 47 form part of these financial statements.

1 ACTIVITIES

Dubai Islamic Bank (Public Joint Stock Company) was incorporated by an Amiri Decree issued on 29 Safar 1395 Hijri, corresponding to 12 March 1975 by His Highness, the Ruler of Dubai, to provide banking and related services based on Islamic Sharia'a principles. It was subsequently registered under the Commercial Companies Law number 8 of 1984 (as amended) as a Public Joint Stock Company.

In addition to its main office in Dubai, the Bank operates through its branches in the U.A.E. The accompanying consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries (the Group) and its associates and joint ventures:

Subsidiaries	*Principal activity*	*Country of incorporation*	*Percentage of equity* 2006	2005
1. Bank of Khartoum	Banking	Sudan	**52.3%**	60.0%
2. Islamic Financial Services L.L.C.	Brokerage services	UAE	**95.5%**	95.5%
3. Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	**100.0%**	100.0%
4. Deyaar Development P.S.C.	Real estate development	UAE	**95.5%**	95.5%
5. Omega Engineering L.L.C.	Mechanical, electrical & plumbing	UAE	**55.0%**	55.0%
6. Al Tanmyah Services L.L.C.	Labour services	UAE	**99.5%**	99.5%
7. Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi	Property Development	Turkey	**100.0%**	-
8. DIB Tower SAL	Investment in real estate	Lebanon	**100.0%**	100.0%
9. Beirut Bay SAL	Property Development	Lebanon	**100.0%**	-
10. Deyaar (UK) Ltd	Representative Office of Deyaar	UK	**100.0%**	-
11. Deyaar Cayman Ltd	Investment holding company	Cayman Islands	**100.0%**	-
12. Millennium Capital Limited	Investments and financial services	UAE	**100.0%**	-
13. Millennium Financial Advisory	Financial advisory	UAE	**65.0%**	-
14. Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**96.0%**	96.0%
15. Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**96.0%**	96.0%
16. Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
17. Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	UAE	**99.0%**	98.0%
18. DIB Printing Press L.L.C.	Printing	UAE	**99.5%**	99.5%
19. Zone One Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
20. Zone Two Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
21. Al Islami Trade Finance FZ L.L.C.	Investments	UAE	**100.0%**	100.0%
22. DIB Lease One Ltd.	Investments	Bahamas	**100.0%**	100.0%
23. DIB Lease One (Dublin) Ltd.	Investments	Ireland	**100.0%**	100.0%
24. Gulf Atlantic FZ L.L.C.	Investments	UAE	**100.0%**	100.0%
25. Al Islami Oceanic Shipping Co FZ L.L.C	Investments	UAE	**100.0%**	100.0%
26. Emirates Trading Center L.L.C.	Trading in motor vehicles	UAE	**100.0%**	100.0%
27. Islamic Investment Company P.S.C.	Financing & investing	UAE	**95.5%**	95.5%
28. Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	UAE	**75.5%**	75.5%

In addition to the registered ownership described above, the remaining equity in the entities 4,6,14,15,17,18, and 27 is also held by the Bank beneficially through nominee arrangements.

1 ACTIVITIES - continued

Associates	*Principal activity*	*Country of incorporation*	*Percentage of equity* **2006**	*2005*
29. Etisalat International Pakistan Ltd	Investments	UAE	**10.0%**	-
30. Bosnia International Bank	Banking	Bosnia	**27.3%**	27.3%
31. BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	**27.3%**	-
32. Liquidity Management Center (B.S.C)	Brokers	Bahrain	**25.0%**	25.0%
33. Emirates National Securitisation Corporation	Securitisation	Cayman Islands	**35.0%**	35.0%
34. Dubai Islamic Insurance & Reinsurance Co. (AMAN)	Islamic insurance	UAE	**-**	16.0%

Joint ventures	*Principal activity*	*Country of incorporation*	*Percentage of equity* **2006**	*2005*
35. Al Bustan Center Company L.L.C.	Rental of apartments and shops	UAE	**50.0%**	50.0%
36. Gulf Tankers L.L.C.	Cargo and transport	UAE	**50.0%**	50.0%
37. Genyx L.L.C.	Training	UAE	-	50.0%
38. Tamweel L.L.C	Real estate financing	UAE	**-**	50.0%

The entities listed under 27 and 36 did not conduct any operations during the current or previous periods.

During the year, the Bank contributed to 10% of the equity in Etisalat International Pakistan Limited (EIP), an entity set up jointly with Emirates Telecommunications Corporation (Etisalat) to acquire a stake in Pakistan Telecommunications Corporation Limited, Pakistan. As the Bank exercises significant influence over EIP, this investment has been accounted for as an investment in an associate.

The Group's shareholding in the entity listed under 34 has decreased below 20% and the Bank no longer exercises significant influence. Hence, as of 31 December 2006, it is not considered an associate. Similarly, Tamweel LLC has not been dealt with as a joint venture for the year ended 31 December 2006, as the Group's interest in Tamweel LLC has decreased following the increase in the capital of the Company through a public offering of shares on 27 February 2006. The Bank disposed of its interest in Genyx LLC during the year.

The Bank carries out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna'a, Mudaraba, Musharaka, Ijarah, Wakala, Sukuk etc. The activities of the Group are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

The address of the registered office of the Bank is P.O. Box 1080, Dubai, United Arab Emirates.

2 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of investments, other than held to maturity investments, and foreign exchange contracts.

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

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, Sharia'a rules and principles as determined by the Bank's Sharia'a Supervisory Board and applicable requirements of UAE laws.

2 BASIS OF PREPARATION - continued

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

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

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

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

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

Basis of consolidation
The consolidated financial statements include the financial statements of the Bank and each of the entities that it controls (the Group - see note 1) together with its interest in the associates and joint ventures. Control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of an entity's capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Bank and are presented separately in the income statement and within equity in the consolidated balance sheet, separate from parent shareholders' equity.

Significant management judgements and estimates

Judgements
The preparation of the consolidated financial statements requires management to use its judgements and make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include consideration of liquidity and model inputs such as correlation and volatility for longer dated instruments.

2 BASIS OF PREPARATION - continued

Significant management judgements and estimates - continued

Judgements - continued

Transfer of equitable interest in properties

The Group has entered into a number of contracts with buyers for the sale of land and apartment units. Management has determined that the equitable interest in such assets and therefore, risks and rewards of the ownership, are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. Based on this, the Group recognises revenues and profits as the acts to complete the property are performed.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement or available for sale.

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

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

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

Use of estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

Impairment losses on financing and investing assets

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

Collective impairment provisions on financing and investing assets

In addition to specific allowance against individually significant loans and advances, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

2 BASIS OF PREPARATION - continued

Significant management judgements and estimates - continued

Use of Estimate - continued

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transaction
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimations. The Group calibrates the valuation techniques periodically and tests them for validity using either prices from observable current market transactions in the same instrument or from other available observable market data.

Impairment of equity investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists giving due consideration to other factors, including normal volatility in share prices for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units.

Costs to complete properties under development
The Group estimates the cost to complete properties under development in order to determine the cost attributable to revenue being recognised. These estimates include the cost of providing infrastructure activities, potential claims by sub contractors and the cost of meeting other contractual obligations to the customers.

Valuation of investment properties
The Group hires the services of third party valuers for obtaining estimates of the value of investment properties.

3 DEFINITIONS

The following terms are used in the consolidated financial statements with the meaning specified:

Murabaha
An agreement whereby the Group sells to a customer a commodity or asset, which the Group has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istisna'a
An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer against an agreed price.

Ijarah
An agreement whereby the Group (lessor) purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for a specific period and against certain rent installments. Ijarah could end by transferring the ownership of the asset to the lessee.

3 DEFINITIONS – continued

Musharaka
An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

Mudaraba
An agreement between the Group and a third party whereby one party would provide a certain amount of funds, which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala
An agreement whereby the Group provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

4 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Murabaha
Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the bank's total Istisna'a cost) is accounted for on a time- apportioned basis.

Ijarah
Ijarah income is recognised on a time- apportioned basis over the lease term.

Musharaka
Income is accounted for on the basis of the reducing balance on a time- apportioned basis that reflects the effective yield on the asset.

Mudaraba
Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Sukuk
Income is accounted for on a time-apportioned basis over the terms of the Sukuk.

Sale of property
Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

4 SIGNIFICANT ACCOUNTING POLICIES – continued

Revenue on sale of apartments is recognised on the basis of percentage completion as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction is beyond a preliminary stage, i.e., commencement of design work or construction contract or site accessibility etc.
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit. Management believes that the likelihood of the Group being unable to fulfil its contractual obligations is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Fee and commission income
Fee and commission income is recognised when earned.

Rental income
Rental income is recognised on an accrual basis.

Dividends
Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of property
Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

Balances and deposits with banks
Balances and deposits with banks are stated at cost less amounts written off and provision for impairment, if any.

International Murabahat, short term
International Murabahat, short term are stated at cost less provisions for impairment and deferred profits.

Islamic financing and investing assets
Islamic financing and investing assets consist of Murabaha receivables, Mudaraba, Musharaka, investments under Sukuk and Wakala arrangements, Istisna'a and Ijarah contracts.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing and investing assets are stated at cost less any provisions for impairment and deferred income.

Investments in joint ventures
The Group's interests in joint ventures, which are defined as those entities which are subject to joint control, are accounted for under the proportionate consolidation method whereby the Group accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

Properties under construction
Properties under construction are stated at cost plus attributable profit / (loss) less progress billings. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, unsold properties, if any are transferred to properties held for sale.

4 SIGNIFICANT ACCOUNTING POLICIES – continued

Properties held for sale
Properties acquired or constructed with the intention of sale are classified as properties held for sale when construction is completed. Properties held for sale are stated at cost or at net realisable value, whichever is lower. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

Investment properties
Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives.

Investments in associates
Investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted amount and the recoverable amount. Associates are enterprises in which the Group generally holds 20% to 50% of the voting power or over which it exercises significant influence.

Trading investments
These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised gains or losses are included in income as gains or losses from trading securities.

Non-trading investments

These are classified as follows:
- Held to maturity
- Investments carried at fair value through income statement
- Available for sale

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

Held to maturity
Investments which have fixed or determinable payments and fixed maturity and which are intended to be held to maturity are carried at amortised cost, less provision for impairment in value.

Investments carried at fair value through income statement
Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the documented strategy of the Group. Investments classified as "Investments at fair value through income statement" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the income statement.

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

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment
Property, plant and equipment are recorded at cost less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight-line basis over the estimated useful lives of all property, plant and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	15-25 years
• Plant and machinery	15-20 years
• Furniture and office equipment	3-5 years
• Information technology	3-5 years
• Motor vehicles	3 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Provisions
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Deposits
Customer deposits and due to banks and other financial institutions are carried at cost.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Employees' end of service benefits
With respect to its U.A.E. national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

The Group provides end of service benefits to its other employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Taxation
Taxation is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred income taxation is provided using the liability method on all temporary differences at the balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Zakat
Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:

- Zakat on shareholders' equity is deducted from their dividends and is computed on their zakat pool (shareholders' equity less paid up capital, donated land reserve plus employees' end of service benefits).
- Zakat on profit equalisation provision is charged to this provision after it has been calculated.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves.

Allocation of profit
Allocation of profits between depositors and shareholders is calculated according to the Group's standard procedures and is approved by the Bank's Sharia'a Supervisory Board.

Cash and cash equivalents
For the purpose of preparation of the consolidated statement of cash flows, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international Murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

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

Forfeited income
According to the Sharia'a Supervisory Boards, the Group is required to identify any income deemed to be derived from sources not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities (forfeited income).

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

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired.

If such evidence exists, any impairment loss, is recognised in the income statement. Impairment is determined as follows:

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

For available for sale securities reversals of impairment losses are recorded as increases in cumulative changes in fair value through equity. In addition, a provision is made to cover collective impairment for groups of assets based on their estimated recoverable amounts.

Derecognition of financial instruments
The derecognition of a financial instruments takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless that asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of non-financial assets – continued
Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Associates
After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the income statement.

Foreign exchange contracts
Foreign exchange contracts are stated at fair value. The fair value of a foreign exchange contract is the equivalent of the unrealised gain or loss from marking to market the contract using prevailing market rates. Foreign exchange contracts with positive market value (unrealised gain) are included in other assets and contracts with negative market value (unrealised losses) are included in other liabilities in the balance sheet.

ESOP shares
ESOP shares consist of the Bank's own shares that have been acquired by the Bank under its Employee Stock Ownership Plan and not yet reissued or cancelled. These shares are accounted for using the cost method. Under the cost method, the average cost of the shares is shown as a deduction from total shareholders' equity.

Share-based payments
Employees (including senior employees) of the Bank receive remuneration in the form of equity-settled share based payments.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the employees service conditions are fulfilled ("the vesting period").

Foreign currencies
Transactions in foreign currencies are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the exchange rates prevailing at that date. Any gain or loss arising from changes in exchange rates subsequent to the date of a transaction is recognised in the consolidated income statement.

Assets and liabilities of foreign operations are not deemed an integral part of the head office's operations and are translated at rates of exchange ruling at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Any exchange differences are taken directly to a foreign currency translation adjustment reserve.

Financial guarantees
In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in "Other liabilities". Subsequent to initial recognition, the Bank's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortisation calculated to recognise the fee in the income statement in 'Net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. Any financial guarantee liability remaining is recognised in the income statement in 'Net fees and commission income' when the guarantee is discharged, cancelled or expires.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Segment reporting

A segment is a distinguishable component of the Group 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. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments.

Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted investments, a reasonable estimate of the fair value is determined by reference to the market value of a similar investment or is based on acceptable valuation techniques.

For investments in properties, fair value is determined periodically on the basis of independent professional valuations.

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

5 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	2006 AED'000	*2005 AED'000*
Financing		
Commodities murabahat	**704,445**	411,358
Vehicles murabahat	**230,905**	184,762
Istisna'a	**142,933**	139,394
Ijara	**315,874**	193,299
	1,394,157	928,813
Investing		
Musharakat	**228,457**	150,988
Mudarabat	**167,384**	69,158
Wakalat	**232,097**	50,559
Sukuk	**211,255**	54,294
Investment funds	**40,558**	80,039
Others	**56,208**	9,500
	935,959	414,538
Investments in companies		
Dividend income	**39,028**	34,439
Loss on trading investments	**(35,354)**	(2,658)
Gain on sale of investments carried at fair value through income statement	**160,519**	103,668
(Loss) gain on revaluation of investments carried at fair value through income statement	**(52,777)**	254,847
	111,416	390,296
Total income from Islamic financing and investing assets	**2,441,532**	1,733,647

Others amounting to AED 56,208,000 (2005: AED 9,500,000) are presented net of forfeited income of AED 7,977,000 (2005: AED 6,203,000).

6 INCOME FROM INVESTMENT PROPERTIES

	2006 AED'000	2005 AED'000
Rental income	**44,567**	40,627
Gain on sale of investment properties	**108,636**	90,701
Others	-	18,578
	153,203	149,906

7 INCOME FROM SALE OF PROPERTIES UNDER CONSTRUCTION

	2006 AED'000	2005 AED'000
Revenue	**978,227**	483,816
Cost of sale (note 15)	**(565,517)**	(342,190)
	412,710	141,626

8 COMMISSIONS, FEES AND FOREIGN EXCHANGE INCOME

	2006 AED'000	2005 AED'000
Commissions and fees	**869,812**	385,364
Foreign exchange gains	**36,904**	15,930
	906,716	401,294

9 GENERAL AND ADMINISTRATIVE EXPENSES

	2006 AED'000	2005 AED'000
Payroll and payroll-related expenses	**636,711**	335,226
Operating expenses	**221,083**	129,087
Administrative expenses	**228,417**	74,278
Depreciation of fixed assets	**56,553**	30,873
Goodwill written off	**5,410**	-
	1,148,174	569,464

10 PROVISIONS FOR IMPAIRMENT

	2006 AED'000	2005 AED'000
Financing and investing assets (note 14)	**70,805**	118,654
Others	**5,662**	11,519
	76,467	130,173

11 DEPOSITORS' SHARE OF PROFITS

	2006	*2005*
	AED'000	*AED'000*
Share for the year	**1,757,611**	918,405
Less: Pertaining to depositors' profit equalisation provision (Note 37)	**(6,152)**	(8,305)
Transfer from / (to) depositors' profit equalisation provision (Note 37)	**50,000**	(4,511)
Depositors' share of profits from a subsidiary on acquisition	-	33,144
	1,801,459	938,733
Less: Paid during the year	**(1,270,203)**	(653,877)
Depositors' share of profit payable net (Note 27)	**531,256**	284,856

12 BASIC AND DILUTED EARNINGS PER SHARE

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

	2006	*2005*
Profit for the year net of directors' remuneration of AED 5,350,000 (2005: AED 5,350,000)	**1,554,743,000**	1,055,719,000
Weighted average number of shares of AED 1 each outstanding during the year	**2,200,031,062**	1,795,887,000
Basic and diluted earnings per share	**AED 0.71**	AED 0.59

The earnings per share of AED 0.70 as reported for 2005 has been adjusted for the effect of the shares issued in 2006 as a result of the scrip dividend.

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

13 CASH AND BALANCES WITH CENTRAL BANKS

	2006	*2005*
	AED'000	*AED'000*
Cash in hand	**826,720**	505,096
Balances with central banks:		
Current accounts	**54,307**	867,575
Reserve requirements	**2,230,697**	1,793,433
	3,111,724	3,166,104

14 ISLAMIC FINANCING AND INVESTING ASSETS

	2006 AED'000	*2005 AED'000*
Financing		
Commodities Murabahat	**7,091,886**	5,322,281
International Murabahat	**3,598,780**	3,763,437
Vehicles Murabahat	**3,877,829**	3,006,849
Real Estate Murabahat	**3,499,405**	1,905,860
Total Murabahat	**18,067,900**	13,998,427
Istisna'a	**4,452,347**	2,636,913
Ijara	**6,038,210**	5,154,076
Islamic credit cards	**161,060**	-
	28,719,517	21,789,416
Less: Deferred income	**(2,919,571)**	(1,667,490)
Contractors and consultants' Istisna'a contracts	**(1,471,737)**	(475,898)
Provisions for impairment	**(829,866)**	(746,279)
	23,498,343	18,899,749
Investing		
Sukuk	**5,764,652**	1,420,012
Musharakat	**2,832,292**	5,827,754
Mudarabat	**3,053,780**	2,100,232
Wakalat	**185,257**	153,749
	11,835,981	9,501,747
Less: Provisions for impairment	**(78,877)**	(95,584)
	11,757,104	9,406,163
Total Islamic financing and investing assets, net	**35,255,447**	28,305,912

Gross Islamic financing and investing assets by geographical area are as follows:

	2006 AED'000	*2005 AED'000*
Within U.A.E.	**23,720,866**	20,803,819
Outside U.A.E.	**16,834,632**	10,487,344
	40,555,498	31,291,163

Islamic financing and investing assets by industry group are as follows:

	2006 AED'000	*2005 AED'000*
Financial institutions	**3,602,506**	5,113,612
Real estate	**13,869,026**	8,362,403
Trade	**6,633,344**	2,406,786
Government	**3,719,212**	8,370,227
Manufacturing and services	**7,933,024**	2,314,940
Personal financing and others	**4,798,386**	4,723,195
	40,555,498	31,291,163

14 ISLAMIC FINANCING AND INVESTING ASSETS – continued

Movements in the provision for impairment are as follows:

	2006 *AED'000*	*2005* *AED'000*
Balance, beginning of the year	**841,863**	724,944
Charge for the year (Note 10)	**70,805**	118,654
Write-offs	**(3,925)**	(1,735)
Balance, end of the year	**908,743**	841,863

15 PROPERTIES UNDER CONSTRUCTION

The movement in properties under construction during the year was as follows:

	2006 *AED'000*	*2005* *AED'000*
Balance, beginning of year	**411,092**	216,518
Additions during the year	**2,325,429**	489,654
Transfer from investment properties	**-**	47,110
Less: Transferred to cost of sale of properties (note 7)	**(565,517)**	(342,190)
Balance, end of year	**2,171,004**	411,092

16 PROPERTIES HELD FOR SALE

Properties held for sale represent properties in Egypt that are registered in the name of third parties on trust for the Bank. Subsequent to the year end, the Bank has completed the transfer of the title in those properties to its name.

17 INVESTMENT PROPERTIES

	2006 *AED'000*	*2005* *AED'000*
Land		
In U.A.E.	**474,232**	427,186
Outside U.A.E.	**67,049**	76,133
	541,281	503,319
Less: Provision for impairment	**(300)**	(300)
	540,981	503,019

17 INVESTMENT PROPERTIES – continued

	2006 AED'000	*2005 AED'000*
Other real estate		
In U.A.E.	**298,014**	331,209
Outside U.A.E.	**2,713**	2,713
	300,727	333,922
Less: Accumulated depreciation and provision for impairment	**(80,495)**	(87,656)
	220,232	246,266
Investment properties, net	**761,213**	749,285

The fair value of the Group's investment properties as of 31 December 2006 is AED 1,467,952,000 (2005: AED 1,151,813,000) as per valuations conducted by independent valuers and the Group's real estate division.

Land in the UAE includes land valued at AED 286,951,000 (2005: AED 286,951,000) donated by the Government which has been allocated for the sole benefit of the shareholders.

The movement in investment properties is as follows:

	Land AED '000	*Other Real Estate AED '000*	***Total AED '000***
Cost:			
Balance, beginning of the year	503,319	333,922	**837,241**
Additions during the year	180,570	22,946	**203,516**
Disposals during the year	(142,608)	(56,141)	**(198,749)**
Balance, end of the year	541,281	300,727	**842,008**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	87,656	**87,956**
Charge for the year	-	10,240	**10,240**
Relating to disposals	-	(17,401)	**(17,401)**
Balance, end of the year	300	80,495	**80,795**
Net book value:			
31 December 2006	540,981	220,232	**761,213**
31 December 2005	503,019	246,266	**749,285**

18 INVESTMENTS IN ASSOCIATES

Investments in associated companies comprise:

	2006 AED'000	*2005 AED'000*
Share in capital and other financing	**1,064,370**	90,110
Share of profits (losses)	**13,531**	(3,466)
	1,077,901	86,644

The Bank's associated companies are set out in note 1.

The following table illustrates summarised information of the Bank's investments in associates:

	2006 AED'000	*2005 AED'000*
Share of associates' balance sheets:		
Assets	**1,251,176**	205,487
Liabilities	**(173,275)**	(118,843)
Net assets	**1,077,901**	86,644
Share of associates' revenues and results:		
Revenues	**11,200**	2,696
Results	**16,148**	343

19 OTHER INVESTMENTS

	2006 AED'000	*2005 AED'000*
Trading investments	**47,849**	40,766
Investments carried at fair value through income statement	**1,021,332**	706,904
Available for sale investments	**2,454,763**	1,108,092
Held-to-maturity investments	**-**	156,996
	3,523,944	2,012,758

Trading investments

	2006 AED'000	*2005 AED'000*
Equities – quoted	**47,849**	40,766

Investments carried at fair value through income statement are as follows:

	2006 AED'000	*2005 AED'000*
Equities - quoted	**1,021,332**	706,904

19 OTHER INVESTMENTS - continued

Available for sale investments comprise the following:

	2006 AED'000	*2005 AED'000*
Quoted equities – local	**859,224**	-
Unquoted equities:		
Local	**136,175**	150,321
Foreign	**1,474,263**	970,919
	1,610,438	1,121,240
Less: Provision for impairment	**(14,899)**	(13,148)
	1,595,539	1,108,092
	2,454,763	1,108,092

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value.

20 INVESTMENTS IN JOINT VENTURES

The Group's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are as under:

	2006 AED'000	*2005 AED'000*
Cash and balances with banks	**7,943**	124,882
Islamic financing and investing assets	**4,480**	616,362
Receivables and other assets	**5,977**	69,333
Fixed assets	**4,149**	12,176
Total assets	**22,549**	822,753
Other liabilities	**8,051**	196,985
Profit for the year	**20,697**	37,377

21 RECEIVABLES AND OTHER ASSETS

	2006 *AED'000*	*2005* *AED'000*
Income receivable	**612,367**	125,528
Trade receivables	**269,919**	197,225
Checks sent for collection	**159,986**	340,355
Advances to contractors	**156,970**	45,290
Rental income receivable	**88,989**	48,393
Inventories	**79,463**	33,054
Prepaid expenses	**76,340**	27,433
Qard Hassan (profit-free loans)	**12,561**	8,000
Overdrawn current accounts, net	**2,332**	2,728
Others	**1,006,196**	375,368
	2,465,123	1,203,374

Overdrawn current accounts are stated net of provision for impairment of AED 28,949,000 (2005: AED 31,119,000).

Inventories pertain to subsidiaries and are stated at the lower of cost and net realisable value.

22 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings AED'000	*Plant and machinery AED'000*	*Furniture and office equipment AED'000*	*Information technology AED'000*	*Motor vehicles AED'000*	*Construction in progress AED'000*	*Total AED'000*
Cost:							
As of 1 January 2006	277,276	76,805	157,471	60,651	18,214	18,359	608,776
Additions	1,141	3,778	75,134	17,530	7,989	18,671	124,243
Disposals	(10,274)	(440)	(1,566)	(3,053)	(699)	(5,746)	(21,778)
Other transfers	(41)	(275)	6,676	74	-	(1,281)	5,153
Exchange adjustment	38,733	-	2,577	-	1,223	(152)	42,381
Balance as of 31 December 2006	**306,835**	**79,868**	**240,292**	**75,202**	**26,727**	**29,851**	**758,775**
Accumulated depreciation:							
As of 1 January 2006	29,644	45,266	82,875	41,487	7,739	-	207,011
Charge for the year	6,405	1,776	35,949	8,423	4,000	-	56,553
Disposals	(195)	(383)	(778)	(348)	(696)	-	(2,400)
Exchange adjustment	557	-	993	-	460	-	2,010
Balance as of 31 December 2006	**36,411**	**46,659**	**119,039**	**49,562**	**11,503**	**-**	**263,174**
Net book value and carrying value:							
31 December 2006	**270,424**	**33,209**	**121,253**	**25,640**	**15,224**	**29,851**	**495,601**
31 December 2005	247,632	31,539	74,596	19,164	10,475	18,359	401,765

In the opinion of management, there are no indications of impairment losses.

23 GOODWILL

	2006	*2005*
	AED'000	*AED'000*
At 1 January	**42,320**	-
Arising on acquisition of subsidiary (see note 24)	**-**	42,320
Written off during the year	**(5,410)**	-
At 31 December	**36,910**	42,320

The Bank did not participate in the rights issue of shares by the subsidiary during the year. Consequently, the bank's interest in the equity of the subsidiary decreased from 60% at 31 December 2005 to 52.3% at 31 December 2006. The proportionate amount of goodwill, attributable to the decrease in the Bank's interest in the equity of the subsidiary, has been written off.

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to Bank of Khartoum as a cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management. The key assumptions of the value in use calculations are those regarding growth rates and expected changes to selling prices and direct costs during the period. The growth rates are based on management estimates having regard to industry growth rates. Changes in income and direct costs are based on past practices and expectations of future changes in the market.

For the year ended 31 December 2006, in respect of Bank of Khartoum, there have been no events or changes in circumstances to indicate carrying values may be impaired.

24 BUSINESS COMBINATION

On 31 July 2005, the Group acquired 60% interest in Bank of Khartoum based in Khartoum, Sudan and engaged in banking activities. The fair value of identifiable assets and liabilities of Bank of Khartoum acquired at that date were as follows:

	Recognised on acquisition 2005 AED'000	***Carrying value 2005 AED'000***
Cash and balances with central bank	**805,125**	**805,125**
Islamic financing and investing assets	**867,677**	**867,677**
Other investments	**17,181**	**17,181**
Other assets	**90,155**	**90,155**
Fixed assets, net	**203,560**	**140,692**
Total assets	**1,983,698**	**1,920,830**

24 BUSINESS COMBINATION – continued

	Recognised on acquisition 2005 AED'000	*Carrying value 2005 AED'000*
Customer deposits	**1,222,526**	**1,222,526**
Due to banks	**24,066**	**24,066**
Other liabilities	**458,703**	**458,703**
Total liabilities	**1,705,295**	**1,705,295**
Fair value of net assets – 100%	**278,403**	
Share of net assets acquired – 60%	**167,042**	
Purchase consideration	**209,362**	
Goodwill arising on acquisition	**42,320**	

25 CUSTOMERS' DEPOSITS

	2006 AED'000	*2005 AED'000*
a) By type:		
Current accounts	**9,264,286**	7,015,356
Saving accounts	**5,733,414**	5,654,891
Investment deposits	**32,065,814**	20,403,363
Margins	**579,724**	182,885
Profit equalisation provision (Note 37)	**89,244**	135,455
	47,732,482	33,391,950
b) By maturity:		
Demand deposits	**14,887,667**	12,988,587
Deposits due within 3 months	**18,668,425**	5,250,220
Deposits due within 6 months	**5,058,889**	1,164,639
Deposits due within 1 year	**9,117,501**	13,988,504
	47,732,482	33,391,950
c) By geographical areas:		
Within U.A.E.	**39,722,859**	31,615,164
Outside U.A.E.	**8,009,623**	1,776,786
	47,732,482	33,391,950
d) By currency:		
U.A.E. Dirham	**36,444,847**	30,306,345
Other currencies, mainly Sudanese Dinar and U.S. Dollars	**11,287,635**	3,085,605
	47,732,482	33,391,950

26 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2006 AED'000	2005 AED'000
Current accounts	**199,921**	251,197
Investment deposits	**4,449,979**	2,484,780
Short term financing	**-**	1,363,380
	4,649,900	4,099,357

27 OTHER LIABILITIES

	2006 AED'000	2005 AED'000
Accruals on purchase of properties	**965,165**	-
Depositors' share of profit (Note 11)	**531,256**	284,856
Bankers checks	**270,927**	195,713
Checks received for collection	**154,213**	129,078
Sundry deposits	**171,040**	518,536
Trade payable	**130,092**	90,591
Rent received in advance	**51,790**	49,778
Provision for employees' end-of-service benefits	**50,025**	41,840
Retentions payable	**42,746**	14,580
Unclaimed dividends	**26,820**	27,169
Provision for taxation (note 28)	**24,814**	26,956
Directors' remuneration	**5,350**	5,350
Payable to contractors	**3,264**	31,889
Others	**727,767**	211,819
	3,155,269	1,628,155

28 TAXATION

	2006 AED'000	2005 AED'000
Opening balance	**26,956**	-
Balance payable on acquisition of subsidiary	**-**	22,766
Current period charge	**6,122**	3,015
Tax paid	**(11,553)**	-
Exchange adjustments	**3,289**	1,175
Balance payable at end of period	**24,814**	26,956

29 ACCRUED ZAKAT

	2006 AED'000	2005 AED'000
Zakat on shareholders' equity (except for share capital)	**69,672**	36,149
Zakat on profit equalisation provision (Note 37)	**2,363**	3,463
	72,035	39,612

30 SHARE CAPITAL

	2006	*2005*
	AED'000	*AED'000*
Authorised capital		
3,000,000,000 shares of AED 1 each	**3,000,000**	3,000,000
(2005: 3,000,000,000 shares of AED 1 each)		
Issued and fully paid-up		
2,800,000,000 shares of AED 1 each	**2,800,000**	1,500,000
(2005: 1,500,000,000 shares of AED 1 each)		

During the year, 300,000,000 shares of AED 1 each were issued as scrip dividend. A further 1,000,000,000 shares of AED 1 each were issued, on a rights basis, at a premium of AED 2 per share.

31 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In 2004, the Bank established an Employee Stock Ownership Plan (ESOP) to recognize and retain good performing key employees. The Plan gives the employee the right to own the Bank's shares at the issue price.

In accordance with a resolution of the shareholders of the Bank at the Extraordinary General Meeting of shareholders held on 26 June 2004, the shareholders surrendered 2% of their share entitlement under the Bank's rights issue, at the rights issue price of AED 20 per share, for the benefit of the Bank's employees under this plan. Under this arrangement, the bank acquired 913,999 of its own shares at the issue price of AED 20 per share.

Out of the above shares, the Bank granted 502,699 shares during 2004 at the rights issue price of AED 20 per share to key employees who achieved certain pre-determined criteria. These employees' entitlement to ownership became effective on or before 31 December 2004.

The remaining 411,300 shares of AED 10 each acquired by the Bank under this scheme were held as ESOP shares and were equivalent to 4,113,000 shares of AED 1 each after the share split during 2005. The cost of acquisition of these shares was AED 8,226 thousand at the rate of AED 20 per share of a nominal value of AED 10 each.

These shares were issued at AED 2 each during the year, under nominee arrangements, to various categories of employees on condition that the employees continue in the service of the Bank for an agreed minimum period ranging between three to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares would revert back to the Bank. Management considers it unlikely that a significant amount of shares would revert back to the Bank on account of employees leaving before completing their vesting period.

The fair value of these shares on the grant date was AED 109,817,000. Accordingly, an amount of AED 101,591,000, being the fair value less the amounts recoverable from the employees, will be charged to the income statement over the vesting period as set out below:

Year	*Charge to Income Statement AED'000*
2006	30,312
2007	36,847
2008	25,085
2009	6,856
2010	2,491
Total	101,591

32 RESERVES

	Statutory reserve AED'000	*Donated land reserve AED'000*	*General reserve AED'000*	*Exchange translation reserve AED'000*	*Total AED'000*
2005					
As of 31 December 2004	625,566	284,701	280,000	-	1,190,267
Exchange and other adjustments	-	2,250	-	8,320	10,570
Transfer from retained earnings	106,134	-	315,000	-	421,134
As of 31 December 2005	731,700	286,951	595,000	8,320	1,621,971
Exchange and other adjustments	-	-	-	22,003	22,003
Premium on issue of shares – Bank	2,000,000	-	-	-	2,000,000
Relating to - subsidiary	29,330	-	-	-	29,330
Transfer from retained earnings	-	-	300,000	-	300,000
As of 31 December 2006	**2,761,030**	**286,951**	**895,000**	**30,323**	**3,973,304**

Statutory reserve
Article 192 of the UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law. The statutory reserve includes AED 2,000 million being the premium collected at AED 2 per share on the rights issue.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital. This is subject to the approval of the Shareholders at the Annual General Meeting.

Donated land reserve
The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (Note 17). The donated land reserve represents the fair value of the land at the time of the donation.

General reserve
Transfer to general reserve is made based on the discretion of the Board of Directors and approved by the shareholders at the annual general meeting.

33 DIVIDENDS PAID AND PROPOSED

	2006 AED'000	*2005 AED'000*
Cash dividends of AED 0.35 per share of AED 1 each (2005: AED 0.20 per share of AED 1 each)	**980,000**	299,177
Scrip dividends of AED 0.07 per share of AED 1 each (2005: AED 0.20 per share of AED 1 each)	**196,000**	299,177

Dividends relating to the year 2005 were declared and paid/issued during the year. During 2005, cash dividends of AED 0.20 per share (totalling AED 299,177 thousand) relating to the year 2004 were declared and paid.

Proposed cash and scrip dividends relating to the year 2006 are subject to the approval of the shareholders at the Annual General Meeting.

34 MINORITY INTEREST

Minority interest represents the minority shareholders' proportionate share in the aggregate value of the net assets of the subsidiaries and the results of the subsidiaries operations.

35 CONTINGENT LIABILITIES AND COMMITMENTS

Financing-related financial instruments

Financing-related financial instruments include commitments to extend financing, standby letters of credit and guarantees which are designed to meet the requirements of the Group's customers.

Commitments to extend financing represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has outstanding commitments and contingent liabilities under letters of credit and guarantees arising in the normal course of business, as follows:

	2006 ***AED'000***	*2005* *AED'000*
Commitments on behalf of customers:		
Letters of guarantee	**9,038,742**	6,230,996
Letters of credit	**3,135,604**	1,850,465
	12,174,346	8,081,461
Commitments		
Future capital expenditure commitments	**1,086,447**	146,223
Other commitments	**-**	859,138

36 CASH AND CASH EQUIVALENTS

	2006 ***AED'000***	*2005* *AED'000*
Cash and balances with central banks	**3,111,724**	3,166,104
International Murabahat, short term	**14,991,239**	5,657,841
Balances and deposits with banks	**407,245**	829,116
Less:		
Deposits with banks with original maturity over 3 months	**-**	(46,478)
	18,510,208	9,606,583

37 PROFIT EQUALISATION PROVISION

	2006 ***AED'000***	*2005* *AED'000*
Balance, beginning of the year	**135,455**	126,102
Share of profit for the year (Note 11)	**6,152**	8,305
	141,607	134,407
Zakat for the year (note 29)	**(2,363)**	(3,463)
Additional transfer (to) / from depositors' share of profit during the year (Note 11)	**(50,000)**	4,511
Balance, end of the year (Note 25)	**89,244**	135,455

Profit equalisation provision represents a portion of the depositors' share of profits set aside as a provision. This provision is payable to the depositors upon the approval of the Board of Directors and the Bank's Sharia'a Supervisory Board. Zakat on profit equalisation provision is included under accrued Zakat.

38 RELATED PARTY TRANSACTIONS

The Group enters into transactions with directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

			2006		
	Major shareholders AED'000	***Directors and key management personnel AED'000***	***Associates AED'000***	***Others AED'000***	***Total AED'000***
Financing and investing activities	**3,719,201**	**193,333**	**-**	**-**	**3,912,534**
Customers' deposits	**913,143**	**59,723**	**-**	**-**	**972,866**
Contingent liabilities	**-**	**5,067**	**-**	**-**	**5,067**
Income from financing and investing activities	**222,394**	**7,822**	**-**	**-**	**230,216**
Depositors' share of profit	**37,773**	**652**	**-**	**-**	**38,425**

			2005		
	Major shareholders AED'000	*Directors and key management personnel AED'000*	*Associates AED'000*	*Others AED'000*	*Total AED'000*
Financing and investing activities	6,689,304	185,528	-	354,373	7,229,205
Customers' deposits	11,357	14,785	7,500	-	33,642
Contingent liabilities	4,250	13,799	-	-	18,049
Income from financing and investing activities	88,724	3,506	-	11,156	103,386
Depositors' share of profit	288	228	644	-	1,160

The compensation paid to key management personnel of the Bank is as follows:

	2006 AED'000	*2005 AED'000*
Salaries and other benefits	**19,925**	14,864
Employee terminal benefits	**426**	399

39 SEGMENTAL INFORMATION

For operating purposes the Group is organised into two major business segments: Financing activities, which principally provide murabahats, istisna'a, ijara and other financing facilities and deposit and current accounts for corporate, government, institutional and individual customers and Investment activities, which involves the management of the Group's investment and development properties, entering into musharakats, mudarabats, wakalat and participating in investment funds. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

	Financing activities		*Investing activities*		*Total*	
	2006	*2005*	***2006***	*2005*	***2006***	*2005*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
Segment revenue	**2,449,974**	1,370,580	**2,126,483**	1,325,463	**4,576,457**	2,696,043
Inter-segment adjustment	**382,727**	195,951	**(382,727)**	(195,951)	**-**	-
	2,832,701	1,566,531	**1,743,756**	1,129,512	**4,576,457**	2,696,043
Profit before depositors' share and tax					**3,341,576**	1,984,794
Depositors' share of profit					**(1,757,611)**	(918,405)
Profit for the year before tax					**1,583,965**	1,066,389
Income tax					**(6,122)**	(3,015)
Profit for the year					**1,577,843**	1,063,374
Segment assets	**49,691,307**	33,335,510	**14,742,629**	9,662,769	**64,433,936**	42,998,279
Segment liabilities and equity	**59,046,180**	38,475,680	**5,387,756**	4,522,599	**64,433,936**	42,998,279

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: UAE which is designated as domestic and outside the UAE which is designated as international. The following table shows the distribution of the Group's operating income, total assets and capital expenditure by geographical segment:

	Domestic		***International***		***Total***	
	2006	*2005*	***2006***	*2005*	***2006***	*2005*
	AED 000	*AED 000*	***AED 000***	*AED 000*	***AED 000***	*AED 000*
Gross income	**4,267,847**	2,574,894	**308,610**	121,149	**4,576,457**	2,696,043
Total assets	**60,766,381**	40,573,645	**3,667,555**	2,424,634	**64,433,936**	42,998,279
Capital expenditure	**58,756**	60,527	**65,487**	10,474	**124,243**	71,001

40 CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Group seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. For details of the composition of financing and investing activities refer to Note 14.

41 MARKET RISK

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. This is managed on the basis of pre-determined asset allocation across various asset categories and a continuous appraisal of market conditions and trends.

42 PROFIT MARGIN RISK

The Group is not significantly exposed to any risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Group does not provide contractual rates of return to its depositors or investment account holders.

The return payable to depositors and investment account holders is based on the principle of the Mudaraba contract by which the depositors and investment account holders agree to share the profit or loss made by the Group over a given period.

43 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had significant overbought positions in US Dollars and Saudi Riyals of AED equivalent to 17,288 million and 342 million respectively as at 31 December 2006 (2005: AED equivalent to 16,302 million and 1,066 million respectively). Further, the Group had significant underbought position in Sudanese Dinar of AED equivalent to 27 million (2005: AED equivalent to 400 million). There was no significant open position in any other currency.

44 FOREIGN EXCHANGE CONTRACTS

The table below shows the positive and negative fair values of foreign exchange contracts, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of the contracts' underlying asset, reference rate or index and is the basis upon which changes in the value of contracts are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market nor credit risk.

31 December 2006:

				Notional amounts by term of maturity			
	Positive fair value AED'000	***Negative fair value AED'000***	***Notional amount total AED'000***	***Within 3 months AED'000***	***Over 3 months to 6 month AED'000***	***Over 6 months to 12 months AED'000***	***Over 1 to 5 years AED'000***
Held for trading:							
Foreign exchange contracts	**3,155**	**2**	**2,661,945**	**2,545,589**	**116,356**	**-**	**-**

31 December 2005:

				Notional amounts by term of maturity			
	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 6 month AED'000*	*Over 6 months to 12 months AED'000*	*Over 1 to 5 years AED'000*
Held for trading:							
Foreign exchange contracts	1,052	9,365	1,505,738	1,262,217	204,132	39,389	-

Product type
Foreign exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future.

Related credit risk
Credit risk in respect of foreign exchange contracts arises from the potential for a counterparty to default on its contractual obligation and is limited to the positive fair value of instruments that are favorable to the Group. All of the Group's contracts are entered into with other financial institutions.

45 LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end is based on contractual repayment arrangements.

45 LIQUIDITY RISK – continued

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

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2006				
Assets:				
Cash and balances with central banks	**2,985,973**	**-**	**125,751**	**3,111,724**
Balances and deposits with banks	**407,245**	**-**	**-**	**407,245**
International Murabahat, short term	**14,991,239**	**-**	**-**	**14,991,239**
Islamic financing and investing assets, net	**9,934,514**	**10,858,901**	**14,462,032**	**35,255,447**
Properties under construction	**-**	**-**	**2,171,004**	**2,171,004**
Properties held for sale	**-**	**-**	**136,585**	**136,585**
Investment properties, net	**-**	**-**	**761,213**	**761,213**
Investments in associates	**-**	**-**	**1,077,901**	**1,077,901**
Other investments, net	**1,069,181**	**-**	**2,454,763**	**3,523,944**
Receivables and other assets	**2,337,492**	**49,646**	**77,985**	**2,465,123**
Fixed assets, net	**-**	**-**	**495,601**	**495,601**
Goodwill	**-**	**-**	**36,910**	**36,910**
Total assets	**31,725,644**	**10,908,547**	**21,799,745**	**64,433,936**
Liabilities and equity:				
Customers' deposits	**33,890,006**	**13,592,534**	**249,942**	**47,732,482**
Due to banks and other financial institutions	**561,102**	**3,973,982**	**114,816**	**4,649,900**
Other liabilities	**3,105,244**	**-**	**50,025**	**3,155,269**
Accrued Zakat	**-**	**72,035**	**-**	**72,035**
Equity	**980,000**	**-**	**7,844,250**	**8,824,250**
Total liabilities and equity	**38,536,352**	**17,638,551**	**8,259,033**	**64,433,936**

45 LIQUIDITY RISK - continued

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2005				
Assets:				
Cash and balances with central banks	3,166,104	-	-	3,166,104
Balances and deposits with banks	829,116	-	-	829,116
International Murabahat, short term	4,445,997	1,211,844	-	5,657,841
Islamic financing and investing assets, net	4,811,519	4,684,204	18,810,189	28,305,912
Properties under construction	-	-	411,092	411,092
Properties held for sale	-	-	132,068	132,068
Investment properties, net	-	-	749,285	749,285
Investments in associates	-	-	86,644	86,644
Other investments, net	747,670	-	1,265,088	2,012,758
Receivables and other assets	1,203,374	-	-	1,203,374
Fixed assets, net	-	-	401,765	401,765
Goodwill	-	-	42,320	42,320
Total assets	15,203,780	5,896,048	21,898,451	42,998,279
Liabilities and equity:				
Customers' deposits	18,238,807	15,018,688	134,455	33,391,950
Due to banks and other financial institutions	1,614,577	2,484,780	-	4,099,357
Other liabilities	1,586,315	-	41,840	1,628,155
Accrued Zakat	-	39,612	-	39,612
Equity	299,177	-	3,540,028	3,839,205
Total liabilities and equity	21,738,876	17,543,080	3,716,323	42,998,279

46 PROFIT RATE RISK

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk through risk management strategies.

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

The Bank's profit sensitivity position as at 31 December 2006, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

	Effective profit rate%	*Up to three months AED'000*	*Over three months to one year AED'000*	*Over one year AED'000*	*Not exposed to profit rate risk AED'000*	*Total AED'000*
2006						
Assets:						
Cash and balances with central banks	-	-	-	-	3,111,724	3,111,724
Balances and deposits with banks	5.0 – 6.0%	221,012	12,453	-	173,780	407,245
International Murabahat, short term	5.0 – 6.0%	14,991,239	-	-	-	14,991,239
Islamic financing and investing assets, net	5.0 – 14.0%	11,553,125	10,569,689	12,974,660	157,973	35,255,447
Properties under construction	-	-	-	-	2,171,004	2,171,004
Properties held for sale	-	-	-	-	136,585	136,585
Investment properties, net	0 – 15.0%	-	-	761,213	-	761,213
Investments in associates	0 – 10.0%	-	-	1,070,217	7,684	1,077,901
Other investments, net	0 - 17.5%	1,600,959	-	50,178	1,872,807	3,523,944
Receivables and other assets	-	-	-	-	2,465,123	2,465,123
Fixed assets, net	-	-	-	-	495,601	495,601
Goodwill	-	-	-	-	36,910	36,910
Total assets		28,366,335	10,582,142	14,856,268	10,629,191	64,433,936
Liabilities and equity:						
Customers' deposits	3.20 – 6.0%	26,383,309	13,505,583	152,207	7,691,383	47,732,482
Due to banks and other financial institutions	3.20 – 6.0%	560,951	3,973,982	-	114,967	4,649,900
Other liabilities	-	-	-	-	3,155,269	3,155,269
Accrued Zakat	-	-	-	-	72,035	72,035
Equity	-	-	-	-	8,824,250	8,824,250
Total liabilities and equity		26,944,260	17,479,565	152,207	19,857,904	64,433,936
Profit rate gap		1,422,075	(6,897,423)	14,704,061	(9,228,713)	
Cumulative profit rate sensitivity gap		1,422,075	(5,475,348)	9,228,713		

46 PROFIT RATE RISK – continued

	Effective profit rate%	*Up to three months AED'000*	*Over three months to one year AED'000*	*Over one year AED'000*	*Not exposed to **profit** rate risk AED'000*	*Total AED'000*
2005						
Assets:						
Cash and balances with central banks	-	-	-	-	3,166,104	3,166,104
Balances and deposits with banks	4.0 – 5.0%	428,837	46,478	-	353,801	829,116
International Murabahat, short term	4.0 – 5.0%	5,657,841	-	-	-	5,657,841
Islamic financing and investing assets, net	5.0 – 12.0%	8,622,325	7,109,848	12,446,324	127,415	28,305,912
Properties under construction	-	-	-	-	411,092	411,092
Properties held for sale	-	-	-	-	132,068	132,068
Investment properties, net	0 – 13.0%	-	-	749,285	-	749,285
Investments in associates	0 – 5.0%	-	-	86,644	-	86,644
Other investments, net	0 - 15.5%	1,015,052	-	129,298	868,408	2,012,758
Receivables and other assets	-	-	-	-	1,203,374	1,203,374
Fixed assets, net	-	-	-	-	401,765	401,765
Goodwill	-	-	-	-	42,320	42,320
Total assets		15,724,055	7,156,326	13,411,551	6,706,347	42,998,279
Liabilities and equity:						
Customers' deposits	2.50 – 5%	12,780,195	8,446,268	5,115,271	7,050,216	33,391,950
Due to banks and other financial institutions	2.50 – 5%	1,314,406	2,683,596	-	101,355	4,099,357
Other liabilities	-	-	-	-	1,628,155	1,628,155
Accrued Zakat	-	-	-	-	39,612	39,612
Equity	-	-	-	-	3,839,205	3,839,205
Total liabilities and equity		14,094,601	11,129,864	5,115,271	12,658,543	42,998,279
Profit rate gap		1,629,454	(3,973,538)	8,296,280	(5,952,196)	
Cumulative profit rate sensitivity gap		1,629,454	(2,344,084)	5,952,196		

47 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

The fair value of foreign exchange contracts is set out in note 44. The fair values of the Group's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2006.