Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

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 2007 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 2007, 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 Fatwa and 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

30 January 2008

Dubai, United Arab Emirates

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	**2007 AED'000**	2006 AED'000
INCOME			
Income from Islamic financing and investing assets	*5*	**3,214,483**	2,289,558
Income from international murabahat, short term		**627,136**	525,153
Share of profits of associates	*18*	**203,462**	16,148
Income from other investments	*6*	**708,727**	151,974
Commissions, fees and foreign exchange income	*7*	**798,327**	906,716
Income from investment properties	*8*	**187,639**	153,203
Income from sale of properties under construction	*9*	**141,331**	412,710
Other income		**126,869**	120,995
Total Income		**6,007,974**	4,576,457
EXPENSES			
Personnel expenses	*10*	**(866,502)**	(636,711)
General and administrative expenses	*11*	**(591,986)**	(511,463)
Provisions for impairment	*12*	**(301,468)**	(76,467)
Depreciation of investment properties	*22*	**(10,500)**	(10,240)
Total Operating Expenses		**(1,770,456)**	(1,234,881)
Profit before depositors' share, tax and gain on transfer of interest in subsidiary		**4,237,518**	3,341,576
Depositors' share of profits	*13*	**(2,356,014)**	(1,757,611)
Profit before tax and gain on transfer of interest in subsidiary		**1,881,504**	1,583,965
Income tax	*32*	**14,148**	(6,122)
		1,895,652	1,577,843
Gain on transfer of interest in subsidiary	*27*	**968,964**	-
Depositors' share of gain on transfer of interest in subsidiary	*13*	**(351,795)**	-
		617,169	-
Profit for the year		**2,512,821**	1,577,843
Attributable to:			
Shareholders of the parent		**2,500,421**	1,560,093
Minority interest		**12,400**	17,750
		2,512,821	1,577,843
Basic and diluted earning per share attributable to the shareholders of the parent	*14*	**AED 0.83**	AED 0.65

The attached notes 1 to 50 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

For the year ended 31 December 2007

	Notes	2007 AED'000	2006 AED'000
ASSETS			
Cash and balances with Central Banks	15	**4,905,657**	3,111,724
Balances and deposits with banks and other financial institutions	16	**1,186,657**	407,245
International murabahat with financial institutions, short term		**16,279,701**	14,991,239
Islamic financing and investing assets	17	**48,887,841**	35,282,947
Investments in associates	18	**3,741,596**	1,050,401
Other investments	19	**4,210,877**	3,523,944
Properties under construction	20	**-**	2,171,004
Properties held for sale	21	**131,831**	136,585
Investment properties	22	**1,499,303**	761,213
Receivables and other assets	23	**2,227,719**	2,465,123
Property, plant and equipment	24	**630,667**	495,601
Goodwill	25	**36,910**	36,910
Total assets		**83,738,759**	64,433,936
LIABILITIES			
Customers' deposits	28	**65,016,828**	47,732,482
Due to banks and other financial institutions	29	**2,241,322**	4,649,900
Sukuks	30	**2,754,750**	-
Other liabilities	31	**2,931,200**	3,155,269
Accrued zakat	33	**129,542**	72,035
Total liabilities		**73,073,642**	55,609,686
Shareholders' equity			
Attributable to equity holders of the parent:			
Share capital	34	**2,996,000**	2,800,000
Statutory reserve	36	**2,756,737**	2,761,030
Donated land reserve	36	**276,139**	286,951
General reserve	36	**1,650,000**	895,000
Exchange translation reserve	36	**27,340**	30,323
Cumulative changes in fair value	38	**1,006,637**	544,649
Retained earnings		**53,654**	43,197
Proposed dividends	37	**1,647,800**	1,176,000
		10,414,307	8,537,150
Minority interests	39	**250,810**	287,100
Total equity		**10,665,117**	8,824,250
Total liabilities and equity		**83,738,759**	64,433,936
Contingent liabilities	40	**18,005,562**	12,174,346

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors dated 30 January 2008.

H. E. Dr. Mohammad K. Kharbash	H. E. Sultan Saeed Al Mansouri	Khalid M. Al Kamda
Chairman	*Deputy Chairman*	*Group Managing Director / CEO*

The attached notes 1 to 50 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007 AED'000**	2006 AED'000
OPERATING ACTIVITIES			
Profit before tax including gain on transfer of interest in subsidiary net of depositors' share of profits		**2,498,673**	1,583,965
Adjustments for:			
Revaluation of investments at fair value through income statement	*6*	**(169,026)**	52,777
Dividend income	*6*	**(94,487)**	(39,028)
Gain on sale of investment properties	*8*	**(138,549)**	(108,636)
Income from sale of properties under construction	*9*	**(141,331)**	(412,710)
ESOP expenses	*10*	**36,847**	30,312
Provisions for impairment	*12*	**301,468**	76,467
Share of profits of associates	*18*	**(203,462)**	(16,148)
Depreciation of investment properties	*22*	**10,500**	10,240
Depreciation of property, plant and equipment	*24*	**85,539**	56,553
Gain on transfer of interest in subsidiary	*27*	**(968,964)**	-
Write off of goodwill		**-**	5,410
		1,217,208	1,239,202
Changes in operating assets and liabilities:			
Trading investments		**47,849**	(7,083)
Islamic financing and investing assets		**(13,873,499)**	(7,047,840)
Receivables and other assets		**(214,270)**	(1,267,411)
Customers' deposits		**17,284,346**	14,340,532
Due to banks and other financial institutions		**(2,173,245)**	550,543
Other liabilities		**967,434**	1,529,256
Accrued zakat		**(61,153)**	(37,249)
Tax paid	*32*	**(35,291)**	(11,553)
Net cash provided by operating activities		**3,159,379**	9,288,397
INVESTING ACTIVITIES			
Held to maturity investments		**-**	156,996
Proceeds from sale (purchase) of investments at fair value through income statement		**369,509**	(367,205)
Purchase of available for sale investments		**(490,238)**	(802,022)
Proceeds from sale of properties under construction		**4,754**	978,227
Proceeds from disposal of investment properties		**417,535**	289,984
Addition to properties under construction		**152,564**	(2,325,429)
Purchase of investment properties	*22*	**(1,038,388)**	(203,516)
Additions to properties held for sale		**-**	(4,517)
Dividend income		**94,487**	39,028
Investments in associates		**90,341**	(947,609)
Purchase of property, plant and equipment	*24*	**(329,556)**	(124,243)
Proceeds from sale of property, plant and equipment		**96,919**	19,378
Deposits with financial institutions with maturity over 3 months		**-**	46,478
Exchange and other adjustments		**(2,013)**	(9,102)
Net cash used in investing activities		**(634,086)**	(3,253,552)

The attached notes 1 to 50 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	**2007 AED'000**	2006 AED'000
FINANCING ACTIVITIES			
Dividends paid		**(980,000)**	(300,000)
Issue of shares		**-**	3,029,330
Issue of sukuk		**2,754,750**	-
ESOP shares acquired		**-**	8,226
Minority interests		**(48,690)**	131,224
Net cash from financing activities		**1,726,060**	2,868,780
INCREASE IN CASH AND CASH EQUIVALENTS		**4,251,353**	8,903,625
Cash and cash equivalents pertaining to subsidiary disposed	*27*	**(389,546)**	**-**
Cash and cash equivalents at the beginning of the year	*42*	**18,510,208**	9,606,583
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	*42*	**22,372,015**	18,510,208

The attached notes 1 to 50 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the parent							
	Share Capital 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 2006	2,800,000	3,973,304	544,649	43,197	1,176,000	8,537,150	287,100	8,824,250
Net movement in cumulative changes in fair value recognized directly in equity	-	-	461,988	-	-	461,988	-	461,988
Exchange adjustments	-	(2,983)	-	-	-	(2,983)	-	(2,983)
Income for the year directly recognized in equity	-	(2,983)	461,988	-	-	459,005	-	459,005
Profit for the year	-	-	-	2,500,421	-	2,500,421	12,400	2,512,821
Total income for the year	**-**	**(2,983)**	**461,988**	**2,500,421**	**-**	**2,959,426**	**12,400**	**2,971,826**
Scrip dividend – 2006	196,000	-	-	-	(196,000)	-	-	-
Cash dividend – 2006	-	-	-	-	(980,000)	(980,000)	-	(980,000)
Payments to minority	-	-	-	-	-	-	(33,994)	(33,994)
Minority interest – relating to new subsidiaries	-	-	-	-	-	-	9,190	9,190
Transfers	-	755,000	-	(755,000)	-	-	-	-
Cost of share based payments	-	-	-	36,846	-	36,846	-	36,846
Zakat	-	-	-	(118,660)	-	(118,660)	-	(118,660)
Directors' fees	-	-	-	(5,350)	-	(5,350)	-	(5,350)
Proposed cash dividend	-	-	-	(1,198,400)	1,198,400	-	-	-
Proposed scrip dividend	-	-	-	(449,400)	449,400	-	-	-
Other movements	-	(15,105)	-	-	-	(15,105)	(23,886)	(38,991)
As of 31 December 2007	**2,996,000**	**4,710,216**	**1,006,637**	**53,654**	**1,647,800**	**10,414,307**	**250,810**	**10,665,117**

The attached notes 1 to 50 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	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 recognized directly in equity	-	-	-	544,649	-	-	544,649	-	544,649
Exchange adjustments	-	-	22,003	-	-	-	22,003	16,480	38,483
Income for the year directly recognized 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 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 50 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* **2007**	*2006*
1. Bank of Khartoum	Banking	Sudan	**52.3%**	52.3%
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. Al Tanmyah Services L.L.C.	Labour services	UAE	**99.5%**	99.5%
5. Deyaar Development Company P.S.C.	Real estate development	UAE	**-**	95.5%
6. Millennium Capital Limited	Investments and financial services	UAE	**95.5%**	95.5%
7. Millennium Finance Corporation Limited	Financial advisory	UAE	**65.0%**	65.0%
8. Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**96.0%**	96.0%
9. Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**96.0%**	96.0%
10. Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
11. Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	UAE	**99.0%**	99.0%
12. DIB Printing Press L.L.C.	Printing	UAE	**99.5%**	99.5%
13. Zone One Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
14. Zone Two Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
15. Al Islami Trade Finance FZ L.L.C.	Investments	UAE	**100.0%**	100.0%
16. DIB Lease One Ltd.	Investments	Bahamas	**100.0%**	100.0%
17. DIB Lease One (Dublin) Ltd.	Investments	Ireland	**100.0%**	100.0%
18. Gulf Atlantic FZ L.L.C.	Investments	UAE	**100.0%**	100.0%
19. Al Islami Oceanic Shipping Co FZ L.L.C	Investments	UAE	**100.0%**	100.0%
20. Emirates Trading Center L.L.C.	Trading in motor vehicles	UAE	**100.0%**	100.0%
21. Millennium Capital Holding PSC (formerly Islamic Investment Company P.S.C.)	Financing & investing	UAE	**95.5%**	95.5%
22. Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	UAE	**75.5%**	75.5%
23. Sequia Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
24. Bulwark Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
25. Optimum Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
26. Rubicon Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
27. Osiris Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
28. Lotus Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
29. Premiere Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
30. Landmark Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
31. Blackstone Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
32. Blue Nile Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
33. Momentum Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
34. Mount Sinai Investments L.L.C.	Investments	UAE	**99.0%**	0.0%
35. Millennium Private Equity Ltd.	Investments	UAE	**65.0%**	0.0%

1 ACTIVITIES – continued

Subsidiaries	*Principal activity*	*Country of incorporation*	*Percentage of equity* **2007**	*2006*
36. Dar al Shariah Financial & Legal Consultancy L.L.C	Financial and legal advisory	UAE	**60.0%**	0.0%
37. Waqf Trust Services LLC	Trust and fiduciary services	UAE	**50.0%**	-

In addition to the registered ownership described above, the remaining equity in the entities 2, 4, 6, 8, 9, 11, 12, 21, to 34 is also held by the Bank beneficially through nominee arrangements.

Associates	*Principal activity*	*Country of incorporation*	*Percentage of equity* **2007**	*2006*
38. Etisalat International Pakistan Ltd	Investments	UAE	**10.0%**	10.0%
39. Bosnia International Bank	Banking	Bosnia	**27.3%**	27.3%
40. BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	**13.6%**	27.3%
41. Liquidity Management Center (B.S.C)	Brokers	Bahrain	**25.0%**	25.0%
42. Emirates National Securitisation Corporation	Securitisation	Cayman Islands	**35.0%**	35.0%
43. Deyaar Development P.J.S.C.	Real estate development	UAE	**43.0%**	-
44. Omega Engineering L.L.C.	Mechanical, electrical & plumbing	UAE	**23.7%**	55.0%
45. Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi	Property Development	Turkey	**43.0%**	100.0%
46. DIB Tower SAL	Investment in real estate	Lebanon	**43.0%**	100.0%
47. Beirut Bay SAL	Property Development	Lebanon	**43.0%**	100.0%
48. Deyaar (UK) Ltd	Representative Office of Deyaar	UK	**43.0%**	100.0%
49. Deyaar Cayman Ltd	Investment holding company	Cayman Islands	**43.0%**	100.0%
50. Faisal Islamic Bank of Kibris	Banking	TRNC	**31.0%**	31.0%
51. Saba Islamic Bank	Banking	Yemen	**18.5%**	-
52. Ejar Cranes & Equipment LLC	Equipment leasing	UAE	**16.66%**	-

Joint ventures	*Principal activity*	*Country of incorporation*	*Percentage of equity* **2007**	*2006*
53. Al Bustan Center Company L.L.C.	Rental of apartments and shops	UAE	**50.0%**	50.0%
54. Gulf Tankers L.L.C.	Cargo and transport	UAE	**50.0%**	50.0%
55. Al Rimal Development	Property development	UAE	**50.0%**	-

The entities listed as 22 and 54 did not conduct any operations during the current or previous periods.

Although the Group's interest in the equity of the entities listed under 38, 40, 51 and 52 is less than 20%, the Group exercises significant influence over these entities. These investments have, accordingly, been accounted for as 'investments in associates'.

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, foreign exchange contracts and profit rate swaps.

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 when otherwise indicated.

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

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries as at 31 December each year. 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 Bank 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.

Changes in accounting policies
The accounting policies adopted are consistent with those used in the previous year except as follows:

As of 1 January 2007, the Bank adopted and applied the following new IASB standards and interpretations. These changes have resulted in additional disclosures being included for the years ended 31 December 2007 and 31 December 2006.

Amendments to IAS 1 – Capital Disclosures
Amendments to IAS 1 *Presentation of Financial Statements* were issued by the IASB as *Capital Disclosures* in August 2006. They were required to be applied for periods beginning on or after 1 January 2007. As a result of these amendments disclosure of information enabling evaluation of the bank's objectives, policies and processes for managing capital is made.

IFRS 7 Financial Instruments: Disclosures
IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2006, becoming effective for periods beginning on or after 1 January 2007. As a result of the adoption additional disclosures of the significance of financial instruments for the Bank's financial position and performance and information about exposure to risks arising from financial instruments are made.

IFRIC 9 Reassessment of Embedded Derivatives
The Bank has adopted IFRIC Interpretation 9 as of 1 January 2007, which states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 Interim Financial Reporting and Impairment
The Bank has adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of an investment in either an equity instrument or a financial asset carried at cost.

Adoption of these interpretations did not have a significant impact on the Bank's financial statements for the current year.

2 BASIS OF PREPARATION - continued

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.

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.

IAS 1 Presentation of Financial Statements
A revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The application of this standard will result in amendments to the presentation of the financial statements.

IAS 23 Borrowing Costs
A revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Bank will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

IFRIC 12 Service Concession Arrangements
IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation is not expected to have any impact on the Bank.

IFRIC 13 Customer Loyalty Programmes
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Bank expects that this interpretation will have no significant impact on the Bank’s financial statements.

IFRIC 14 IAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Bank expects that this Interpretation will have no impact on the financial position or performance of the Bank.

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.

In addition to specific allowance against individually significant financing and investing assets, 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 estimates - 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.

Sukuk
These comprise asset backed, Sharia'a compliant trust certificates.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Sukuk
Income is accounted for on a time-apportioned basis over the term 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.

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 and other financial institutions
Balances and deposits with banks and other financial institutions 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.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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.

The reporting dates of the joint venture and the Bank are identical and the joint venture's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Properties under construction
Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Sold properties which have met the revenue recognition criteria are stated at cost plus attributable profit / (loss) less progress billings and amounts transferred to cost of sales attributable to revenues recognized. 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, cost in respect to unsold properties is eliminated from properties under construction and transferred to properties held for sale.

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.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in 'Other operating income' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

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.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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
Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit and loss, held to maturity or financing and investing assets. They include equity instruments and investments in mutual funds.

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.

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

The carrying values of properties and equipments are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

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.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued
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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued
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 and cumulative changes in fair value) 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.

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 or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the income statement.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment and uncollectibility of financial assets - continued
In addition to the provision for specific impaired investing and financing assets, collective provisions are made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows.

Impairment is determined as follows:

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

Renegotiated credit facilities
Where possible, the Bank seeks to restructure credit exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new credit conditions. Once the terms have been renegotiated, the credit exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facilities continue to be subject to an individual or collective impairment assessment, calculated using the facilities original effective profit rate.

Derecognition of financial assets and financial liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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 the recoverable amount.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of non-financial assets - continued
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.

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 investments 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.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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 "Provisions for impairment". 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.

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.

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.

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

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

5 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	2007 AED'000	2006 AED'000
Financing assets		
Commodities murabahat	**468,140**	375,529
International murabahat	**156,616**	164,459
Vehicles murabahat	**308,582**	230,905
Real estate murabahat	**321,448**	164,457
Total murabahat income	**1,254,786**	935,350
Istisna'a	**216,851**	142,933
Ijara	**504,558**	315,874
Income from financing assets	**1,976,195**	1,394,157
Investing assets		
Sukuks	**513,213**	211,255
Musharakat	**400,469**	228,457
Mudarabat	**236,601**	167,384
Wakalat	**66,989**	232,097
Others	**21,016**	56,208
Income from investing assets	**1,238,288**	895,401
Total income from Islamic financing and investing assets	**3,214,483**	2,289,558

Others amounting to AED 21,016,000 (2006: AED 56,208,000) are presented net of forfeited income of AED 10,532,904 (2006: AED 7,977,000).

6 INCOME FROM OTHER INVESTMENTS

	2007 AED'000	2006 AED'000
Loss on trading investments	-	(35,354)
Income from available for sale investment	**162,695**	40,558
Gain on sale of investments carried at fair value through income statement	**166,089**	160,519
Gain / (loss) on revaluation of investments carried at fair value through income statement	**169,026**	(52,777)
Realised gain on disposal of available for sale investments	**116,430**	-
Dividend income	**94,487**	39,028
	708,727	151,974

7 COMMISSIONS, FEES AND FOREIGN EXCHANGE INCOME

	2007 AED'000	2006 AED'000
Trade related commission and fees	**290,303**	226,654
Other commissions and fees	**414,275**	643,158
Foreign exchange gains	**93,749**	36,904
	798,327	906,716

8 INCOME FROM INVESTMENT PROPERTIES

	2007 **AED'000**	2006 AED'000
Rental income	**49,090**	44,567
Gain on sale of investment properties	**138,549**	108,636
	187,639	153,203

9 INCOME FROM SALE OF PROPERTIES UNDER CONSTRUCTION

	2007 **AED'000**	2006 AED'000
Revenue	**652,186**	978,227
Cost of sale (note 20)	**(510,855)**	(565,517)
	141,331	412,710

10 PERSONNEL EXPENSES

	2007 **AED'000**	2006 AED'000
Salaries and wages	**635,421**	435,267
Staff terminal benefits	**20,798**	15,177
Share based payments	**36,847**	30,312
Others	**173,436**	155,955
	866,502	636,711
Number of employees at 31 December	**6894**	5890

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2007 **AED'000**	2006 AED'000
Administrative expenses	**249,887**	196,931
Depreciation of property, plant and equipment	**85,539**	56,553
Rental charges payable under operating leases	**47,649**	31,486
Other operating expenses	**208,911**	221,083
Goodwill written off	**-**	5,410
	591,986	511,463

12 PROVISIONS FOR IMPAIRMENT

	2007 AED'000	2006 AED'000
Investing assets (note 17)	**(870)**	(16,707)
Financing assets (note 17)	**269,475**	60,012
Investments in associates (note 18)	**21,926**	27,500
Other investments (note 19)	**16,961**	1,751
Receivables and other assets	**(6,024)**	3,911
	301,468	76,467

13 DEPOSITORS' SHARE OF PROFITS

	2007 AED'000	2006 AED'000
Share for the year, including share of gain on transfer of subsidiary	**2,707,809**	1,757,611
Less: Pertaining to depositors' profit equalisation provision (Note 43)	**(15,657)**	(6,152)
Transfer (to) / from depositors' profit equalisation provision (Note 43)	**(317,300)**	50,000
	2,374,852	1,801,459
Less: Paid during the year	**(1,766,872)**	(1,270,203)
Depositors' share of profit payable (Note 31)	**607,980**	531,256

Share of profits accrued to customers and financial institutions is as follows:

Investment and savings deposits from customers	**2,187,224**	1,260,655
Wakala and other investment deposits from banks and customers	**389,602**	496,956
Profit accrued on sukuks	**130,983**	-
	2,707,809	1,757,611

14 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:

	2007	*2006*
Profit for the year net of directors' remuneration of AED 5,350,000 (2006: AED 5,350,000)	**2,495,071,000**	1,554,743,000
Weighted average number of shares of AED 1 each outstanding during the year	**2,996,000,000**	2,396,031,062
Basic and diluted earnings per share	**AED 0.83**	AED 0.65

The earnings per share of AED 0.71 as reported for 2006 has been adjusted for the effect of the shares issued in 2007 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.

15 CASH AND BALANCES WITH CENTRAL BANKS

	2007 **AED'000**	2006 AED'000
Cash in hand	**1,027,859**	826,720
Balances with central banks:		
- Current accounts	**813,684**	54,307
- Reserve requirements	**3,064,114**	2,230,697
	4,905,657	3,111,724

The reserve requirements are kept with the Central Banks of UAE, Pakistan and Sudan in the respective local currencies and the US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective Central Banks. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives.

16 BALANCES AND DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 **AED'000**	2006 AED'000
Current accounts	**673,802**	407,245
Investment deposits	**512,855**	-
	1,186,657	407,245

17 ISLAMIC FINANCING AND INVESTING ASSETS

	2007 **AED'000**	2006 AED'000
Financing		
Commodities Murabahat	**8,886,839**	7,091,886
International Murabahat, long term	**2,460,370**	3,598,780
Vehicles Murabahat	**4,979,679**	3,877,829
Real Estate Murabahat	**5,739,230**	3,499,405
Total Murabahat	**22,066,118**	18,067,900
Istisna'a	**6,606,312**	4,452,347
Ijara	**9,029,289**	6,038,210
Islamic credit cards	**257,372**	161,060
	37,959,091	28,719,517
Less: Deferred income	**(4,190,559)**	(2,919,571)
Contractors and consultants' Istisna'a contracts	**(1,786,179)**	(1,471,737)
Provisions for impairment	**(1,046,662)**	(802,366)
	30,935,691	23,525,843

17 ISLAMIC FINANCING AND INVESTING ASSETS - continued

	2007 AED'000	2006 AED'000
Investing		
Sukuk	**8,511,759**	5,764,652
Musharakat	**3,808,029**	2,832,292
Mudarabat	**5,506,302**	3,053,780
Wakalat	**204,067**	185,257
	18,030,157	11,835,981
Less: Provisions for impairment	**(78,007)**	(78,877)
	17,952,150	11,757,104
Total Islamic financing and investing assets, net	**48,887,841**	35,282,947

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

	2007 AED'000	2006 AED'000
Within U.A.E.	**39,640,058**	19,329,558
Outside U.A.E.	**10,372,452**	16,834,632
	50,012,510	36,164,190

Islamic financing and investing assets by industry group before provision for impairment are as follows:

	2007 AED'000	2006 AED'000
Financial institutions	**3,796,467**	3,486,879
Real estate	**18,559,791**	10,652,339
Trade	**3,969,033**	6,489,245
Government	**4,503,577**	3,719,212
Manufacturing and services	**12,256,622**	7,586,746
Personal financing and others	**6,927,020**	4,229,769
	50,012,510	36,164,190

Provisions for impairment

Movements in the provision for impairment are as follows:

	Financing AED'000	**Investing AED'000**	**Total AED'000**
2007			
Balance, beginning of the year	802,366	78,877	881,243
Charge for the year (note 12)	325,056	6,798	331,854
Release to the income statement (note 12)	(55,581)	(7,668)	(63,249)
Write-offs	(25,179)	-	(25,179)
Balance, end of the year	**1,046,662**	**78,007**	**1,124,669**
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	**1,604,424**	**80,321**	**1,684,745**

17 ISLAMIC FINANCING AND INVESTING ASSETS - continued

2006	Financing AED'000	Investing AED'000	Total AED'000
Balance, beginning of the year	746,279	95,584	841,863
Charge for the year (note 12)	120,076	-	120,076
Release to the income statement (note 12)	(60,064)	(16,707)	(76,771)
Write-offs	(3,925)	-	(3,925)
Balance, end of the year	802,366	78,877	881,243
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,310,919	105,417	1,416,336

Collateral

The Group, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with investing and financing assets. This collateral mostly includes savings and investment deposits, financial guarantees, equities, real estate and other fixed assets.

The fair value of collateral that the Bank holds relating to facilities individually determined to be impaired at 31 December 2007 amounts to AED 384,050,000 (2006: AED 459,453,000).

During the year, the bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 3,199,000 (*2006: AED 1,725,000*), which has been adjusted against the outstanding receivable.

18 INVESTMENTS IN ASSOCIATES

Investments in associated companies comprise:

	2007 AED'000	2006 AED'000
Share in capital and financing	**3,573,871**	1,064,370
Share of profits	**217,151**	13,531
Less: provision for impairment	**(49,426)**	(27,500)
	3,741,596	1,050,401

Provision for impairment of investments in associates

	2007 AED'000	2006 AED'000
Balance, beginning of the year	**27,500**	-
Charge for the year (note 12)	**21,926**	27,500
Balance, end of the year	**49,426**	27,500

18 INVESTMENTS IN ASSOCIATES - continued

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

	2007 AED'000	2006 AED'000
Share of associates' balance sheets:		
Assets	**5,672,867**	1,251,176
Liabilities	**(1,931,271)**	(173,275)
Net assets	**3,741,596**	1,077,901
Share of associates' revenues and results:		
Revenues	**419,711**	11,200
Results	**203,462**	16,148

19 OTHER INVESTMENTS

	2007 AED'000	2006 AED'000
Trading investments	-	47,849
Investments carried at fair value through income statement	**820,849**	1,021,332
Available for sale investments	**3,390,028**	2,454,763
	4,210,877	3,523,944

Trading investments

	2007 AED'000	2006 AED'000
Equities - quoted	-	47,849

Investments carried at fair value through income statement

	2007 AED'000	2006 AED'000
Equities - quoted	**820,849**	1,021,332

Available for sale investments comprise the following:

	2007 AED'000	2006 AED'000
Quoted equities – local	**2,256,750**	859,224
Unquoted equities:		
Local	**269,482**	136,175
Foreign	**894,653**	1,474,263
	1,164,135	1,610,438
Less: Provision for impairment	**(30,857)**	(14,899)
	1,133,278	1,595,539
	3,390,028	2,454,763

19 OTHER INVESTMENTS – continued

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.

Movements in the provision for impairment of available for sale investments are as follows:

	2007 AED'000	2006 AED'000
Balance, beginning of the year	**14,899**	13,148
Charge for the year (note 12)	**23,961**	1,751
Release to the income statement (note 12)	**(7,000)**	-
Write-offs	**(1,003)**	-
Balance, end of the year	**30,857**	14,899

20 PROPERTIES UNDER CONSTRUCTION

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

	2007 AED'000	2006 AED'000
Balance, beginning of year	**2,171,004**	411,092
Additions during the year	**981,345**	2,325,429
Less: Transferred to cost of sale of properties (note 9)	**(510,855)**	(565,517)
Less: Transferred to Deyaar PJSC (note 27)	**(2,641,494)**	-
Balance, end of year	**-**	2,171,004

21 PROPERTIES HELD FOR SALE

Properties held for sale represent properties in Egypt that are registered in the name of certain subsidiaries of the Bank.

22 INVESTMENT PROPERTIES

	2007 AED'000	2006 AED'000
Land		
In U.A.E.	**1,171,537**	474,232
Outside U.A.E.	**67,049**	67,049
	1,238,586	541,281
Less: Provision for impairment	**(300)**	(300)
	1,238,286	540,981

22 INVESTMENT PROPERTIES – continued

	2007 **AED'000**	2006 AED'000
Other real estate		
In U.A.E.	**304,923**	298,014
Outside U.A.E.	**47,085**	2,713
	352,008	300,727
Less: Accumulated depreciation and provision for impairment	**(90,991)**	(80,495)
	261,017	220,232
Investment properties, net	**1,499,303**	761,213

The fair value of the Group's investment properties as of 31 December 2007 is AED 2,538,722,000 (2006: AED 1,467,952,000) as per valuations conducted by independent valuers and the Group's real estate division.

Land in the UAE includes land valued at AED 276,139,000 (2006: 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:

2007

	Land *AED '000*	*Other Real Estate* *AED '000*	*Total* *AED '000*
Cost:			
Balance, beginning of the year	541,281	300,727	**842,008**
Additions during the year	987,107	51,281	**1,038,388**
Transfer during the year	-	24,417	**24,417**
Disposals during the year	(289,802)	(24,417)	**(314,219)**
Balance, end of the year	**1,238,586**	**352,008**	**1,590,594**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	80,495	**80,795**
Relating to transfer	-	2,145	**2,145**
Charge for the year	-	10,500	**10,500**
Relating to disposals	-	(2,149)	**(2,149)**
Balance, end of the year	**300**	**90,991**	**91,291**
Net book value:			
31 December 2007	**1,238,286**	**261,017**	**1,499,303**

22 INVESTMENT PROPERTIES - continued

2006

	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

23 RECEIVABLES AND OTHER ASSETS

	2007 **AED'000**	2006 AED'000
Income receivable	**774,518**	612,367
Rental income receivable	**120,104**	88,989
Trade receivables	**34,638**	269,919
Cheques sent for collection	**240,825**	159,986
Advances to contractors	**30,811**	156,970
Inventories	**250,256**	79,463
Prepaid expenses	**55,448**	76,340
Qard Hassan (profit-free loans)	**8,000**	12,561
Overdrawn current accounts, net	**4,833**	2,332
Deferred taxation (note 32)	**28,109**	13,009
Others	**680,177**	993,187
	2,227,719	2,465,123

Overdrawn current accounts are stated net of provision for impairment of AED 25,679,000 (2006: AED 28,949,000).

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

24 PROPERTY, PLANT AND EQUIPMENT

2007

	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 2007	306,835	79,868	240,292	75,202	26,727	29,851	**758,775**
Additions	1,187	3,064	114,767	47,440	9,904	153,194	**329,556**
Disposals	(73,047)	(2,128)	(13,013)	(5,991)	(7,861)	(836)	**(102,876)**
Other transfers	(24,417)	-	23,486	485	-	(23,971)	**(24,417)**
Exchange adjustments	870	(22)	(167)	66	(40)	(134)	**573**
Balance as of 31 December 2007	**211,428**	**80,782**	**365,365**	**117,202**	**28,730**	**158,104**	**961,611**
Accumulated depreciation:							
As of 1 January 2007	36,411	46,659	119,039	49,562	11,503	-	**263,174**
Charge for the year	3,526	3,847	57,990	15,265	4,911	-	**85,539**
Disposals	(1,552)	(1,347)	(5,085)	(2,318)	(5,369)	-	**(15,671)**
Other transfers	(2,145)	-	-	-	-	-	**(2,145)**
Exchange adjustments	26	(1)	15	-	7	-	**47**
Balance as of 31 December 2007	**36,266**	**49,158**	**171,959**	**62,509**	**11,052**	**-**	**330,944**
Net book value and carrying value:							
31 December 2007	**175,162**	**31,624**	**193,406**	**54,693**	**17,678**	**158,104**	**630,667**

24 PROPERTY, PLANT AND EQUIPMENT – continued

2006

	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 adjustments	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 adjustments	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

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

25 GOODWILL

	2007 **AED'000**	2006 AED'000
At 1 January	**36,910**	42,320
Written off during the year	-	(5,410)
At 31 December	**36,910**	36,910

Impairment testing of goodwill

Goodwill acquired through a 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 2007, in respect of Bank of Khartoum, there have been no events or changes in circumstances to indicate carrying values may be impaired.

26 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:

	2007 **AED'000**	2006 AED'000
Cash and balances with banks	**9,371**	7,943
Islamic financing and investing assets	**4,275**	4,480
Receivables and other assets	**28,669**	5,977
Property, plant and equipment	**3,574**	4,149
Total assets	**45,889**	22,549
Other liabilities	**10,284**	8,051
Profit for the year	**25,345**	20,697

27 TRANSFER OF INTEREST IN SUBSIDIARY

The Group transferred its entire interest in Deyaar Development Company P.S.C. (a subsidiary company) engaged in real estate development to Deyaar Development PJSC as at 30 May 2007 for a consideration of AED 2,600,000,000 to be settled by the issue of 2,600,000,000 shares of AED 1 each in Deyaar Development PJSC.

The assets and liabilities of Deyaar Development Company P.S.C. as of 30 May 2007 and 31 December 2006 were as follows:

	30 May 2007 AED'000	Audited 31 Dec 2006 AED'000
Property, plant and equipment	**14,956**	12,032
Properties under construction	**2,641,494**	2,159,771
Accounts and notes receivable	**245,267**	261,567
Prepayments and other assets	**382,079**	211,231
Bank balances and cash	**584,598**	389,546
Total assets	**3,868,394**	3,034,147
Employees' end of service benefits	**2,805**	4,401
Retention payable	**44,531**	35,467
Islamic finance obligations	**857,038**	235,333
Term loan	**1,346**	1,041
Accounts payable and accruals	**1,327,875**	1,121,605
Minority interest	**3,763**	5,264
Total liabilities	**2,237,358**	1,403,111
Net assets	**1,631,036**	1,631,036
Consideration	**2,600,000**	
Gain arising on transfer	**968,964**	

28 CUSTOMERS' DEPOSITS

	2007 AED'000	2006 AED'000
a) By Type		
Current accounts	**13,804,657**	9,264,286
Saving accounts	**8,730,070**	5,733,414
Investment deposits	**41,619,982**	32,065,814
Margin accounts	**450,800**	579,724
Profit equalisation provision (note 43)	**411,319**	89,244
	65,016,828	47,732,482

28 CUSTOMERS' DEPOSITS – continued

	2007 AED'000	2006 AED'000
b) By contractual maturity:		
Demand deposits	**16,299,754**	14,887,667
Deposits due within 3 months	**27,040,433**	18,668,425
Deposits due within 6 months	**2,333,038**	5,058,889
Deposits due within 1 year	**17,998,356**	8,345,976
Deposits due over 1 year	**1,345,247**	771,525
	65,016,828	47,732,482
c) By geographical areas:		
Within U.A.E.	**59,439,543**	39,722,859
Outside U.A.E.	**5,577,285**	8,009,623
	65,016,828	47,732,482
d) By currency:		
U.A.E. Dirham	**53,005,059**	36,444,847
Other currencies, mainly Sudanese Dinar and U.S. Dollars	**12,011,769**	11,287,635
	65,016,828	47,732,482

29 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 AED'000	2006 AED'000
Current accounts	**240,660**	199,921
Investment deposits	**2,000,662**	4,449,979
	2,241,322	4,649,900

30 SUKUKS

During the year the Bank, through a sharia'a compliant Sukuk Financing arrangement, raised medium term finance amounting to AED 2,754,750,000 (USD750 million). The sukuks are listed on the Dubai International Financial Exchange and the London Stock Exchange.

The terms of the arrangement include transfer of certain identified assets ("the Co Owned Assets") including original leased and musharakat assets, Shariaa compliant authorized investments and any replaced assets of the Bank to a Sukuk company, DIB Sukuk Company Limited – the Issuer, specially formed for the sukuk transaction. The assets are in the control of the Bank and shall continue to be serviced by the Bank. The sukuk certificates mature in 2012.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuks, the Bank has undertaken to repurchase the assets at the exercise price of USD 750 million.

The sukuks bear a variable profit rate payable to the investors based on market rate plus a margin. Such profits are payable on a quarterly basis.

31 OTHER LIABILITIES

	2007 AED'000	2006 AED'000
Depositors' share of profit (note 13)	**607,980**	531,256
Payable for properties	**336,393**	965,165
Bankers cheques	**453,968**	270,927
Cheques received for collection	**209,148**	154,213
Sundry deposits	**381,704**	171,040
Trade payables	**18,229**	130,092
Rent received in advance	**88,468**	51,790
Provision for employees' end-of-service benefits	**60,256**	50,025
Retentions payable	**-**	42,746
Unclaimed dividends	**35,272**	26,820
Provision for taxation (note 32)	**3,484**	37,823
Directors' remuneration	**5,350**	5,350
Payable to contractors	**6,082**	3,264
Others	**724,866**	714,758
	2,931,200	3,155,269

32 TAXATION

Provision for taxation

	2007 AED'000	2006 AED'000
Opening balance	**37,823**	33,965
Current period charge	**952**	12,122
Taxes paid	**(35,291)**	(11,553)
Exchange adjustments	**-**	3,289
Closing balance	**3,484**	37,823

Deferred tax asset

	2007 AED'000	2006 AED'000
Deferred tax asset at beginning of the year	**13,009**	7,009
Additions during the year	**15,100**	6,000
Deferred tax asset at the end of the year	**28,109**	13,009

Tax reversal / (charge) for the year

	2007 AED'000	2006 AED'000
Current taxation	**(952)**	(12,122)
Deferred taxation	**15,100**	6,000
Deferred tax asset at the end of the year	**14,148**	(6,122)

33 ACCRUED ZAKAT

	2007 **AED'000**	2006 AED'000
Zakat on shareholders' equity (except for share capital and donated land reserve)	**118,660**	69,672
Zakat on profit equalisation provision (note 43)	**10,882**	2,363
	129,542	72,035

34 SHARE CAPITAL

	2007		2006	
	Number of shares "000"	**Amount in AED "000"**	Number of shares "000"	Amount in AED "000
Authorised				
Ordinary shares of AED 1 each	**3,000,000**	**3,000,000**	3,000,000	3,000,000
Issued and fully paid up				
At 1 January	**2,800,000**	**2,800,000**	1,500,000	1,500,000
Rights issue during the year	**-**	**-**	1,000,000	1,000,000
Bonus shares	**196,000**	**196,000**	300,000	300,000
At 31 December	**2,996,000**	**2,996,000**	2,800,000	2,800,000

During the year, 196 million shares of AED 1 each were issued as scrip dividend (*2006: 300 million shares*).

35 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 or AED 2 per share after the share split.

These shares were issued at AED 2 each during the previous 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.

35 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) - continued

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	36,846
2008	25,085
2009	6,856
2010	2,492
Total	101,591

36 RESERVES

	Statutory reserve AED'000	**Donated land reserve** AED'000	**General reserve** AED'000	**Exchange translation reserve** AED'000	**Total** AED'000
As of 1 January 2006	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
Exchange and other adjustments	-	-	-	(2,983)	(2,983)
Reversal of share premium in a subsidiary	(4,293)	-	-	-	(4,293)
Transfer from retained earnings		-	755,000	-	755,000
Relating to disposal of donated land	-	(10,812)	-	-	(10,812)
As of 31 December 2007	**2,756,737**	**276,139**	**1,650,000**	**27,340**	**4,710,216**

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 during the previous year.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital.

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 22). The donated land reserve represents the fair value of the land, net of disposals, at the time of the donation.

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

37 DIVIDENDS PAID AND PROPOSED

	2007 AED'000	2006 AED'000
Cash dividend of AED 0.40 per share of AED 1 each (2006: AED 0.35 per share of AED 1 each)	**1,198,400**	980,000
Scrip dividend of AED 0.15 per share of AED 1 each (2006: AED 0.07 per share of AED 1 each)	**449,400**	196,000

Dividends relating to the year 2006 were declared and paid/issued during the year. During 2006, cash dividends of AED 0.35 per share (totalling AED 299,177 thousand) relating to the year 2005 were paid. Proposed cash and scrip dividends relating to the year 2007 are subject to the approval of the shareholders at the Annual General Meeting to be held during March 2008.

38 CUMULATIVE CHANGES IN FAIR VALUE

	2007 AED'000	2006 AED'000
At 1 January 2007	**544,649**	**-**
Realised gains on AFS financial investments reclassified to income statement on disposal	**(116,430)**	-
Net unrealized gains on AFS investments	**578,418**	544,649
At 31 December 2007	**1,006,637**	544,649

39 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.

40 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:

	2007 AED'000	2006 AED'000
Contingent liabilities:		
Acceptances	**1,462,287**	593,256
Letters of credit	**6,161,796**	2,542,348
Letters of guarantee	**10,381,479**	9,038,742
	18,005,562	12,174,346

40 CONTINGENT LIABILITIES AND COMMITMENTS – continued

	2007 AED'000	2006 AED'000
Commitments		
Capital expenditure commitments	**578,299**	1,086,447
Irrevocable undrawn facilities commitments	**9,391,000**	4,471,000
	9,969,299	5,557,447

41 DERIVATIVES

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

31 December 2007: ***Notional amounts by term to 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 1 year AED'000***	***Over 1 year to 3 years AED'000***	***Over 3 to 5 years AED'000***	***Over 5 years AED'000***
Derivatives held for trading:								
Foreign exchange contracts	**33,726**	**29,633**	**14,936,790**	**12,009,606**	**356,084**	**2,571,100**	**-**	**-**
Profit rate swaps	**33,052**	**33,052**	**4,530,033**	**-**	**-**	**1,941,443**	**2,588,590**	**-**
	66,778	**62,685**	**19,466,823**	**12,009,606**	**356,084**	**4,512,543**	**2,588,590**	**-**

31 December 2006: *Notional amounts by term to 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 1 year AED'000*	*Over1 year to 3 years AED'000*	*Over3 to 5 years AED'000*	*Over 5 years AED'000*
Derivatives held for trading:								
Foreign exchange contracts	3,155	2	2,661,945	2,545,589	116,356	-	-	-

The bank has positions in the following types of derivatives.

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

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

41 DERIVATIVES – continued

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and strategic hedging (see below). Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

For profit rate risk, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into profit rate swaps. As strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

42 CASH AND CASH EQUIVALENTS

	2007 **AED'000**	*2006* *AED'000*
Cash and balances with central banks	**4,905,657**	3,111,724
International Murabahat, short term	**16,279,701**	14,991,239
Balances and deposits with banks and other financial institutions	**1,186,657**	407,245
	22,372,015	18,510,208

43 PROFIT EQUALISATION PROVISION

	2007 **AED'000**	*2006* *AED'000*
Balance, beginning of the year	**89,244**	135,455
Share of profit for the year (Note 13)	**15,657**	6,152
Zakat for the year (Note 33)	**(10,882)**	(2,363)
Additional transfer from / (to) depositors' share of profit during the year (Note 13)	**317,300**	(50,000)
Balance, end of the year (Note 28)	**411,319**	89,244

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.

44 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:

	Major shareholders AED'000	**Directors and key management personnel AED'000**	**Associates AED'000**	**Total AED'000**
2007				
Financing and investing assets	**4,372,521**	**225,366**	**358,793**	**4,956,680**
Customers' deposits	**273,527**	**54,831**	**491,377**	**819,735**
Contingent liabilities	**2,115,119**	**13,316**	**12,489**	**2,140,924**
Income from financing and investing assets	**240,796**	**14,959**	**22,214**	**277,969**
Depositors' share of profits	**11,520**	**313**	**12,498**	**24,331**

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2006				
Financing and investing assets	3,719,201	193,333	6,005	3,918,539
Customers' deposits	913,143	59,723	300	973,166
Contingent liabilities	-	5,067	-	5,067
Income from financing and investing assets	222,394	7,822	330	230,546
Depositors' share of profits	37,773	652	-	38,425

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

	2007 AED'000	2006 AED'000
Salaries and other benefits	**36,364**	19,925
Employee terminal benefits	**745**	426

45 SEGMENTAL INFORMATION

For operating purposes the Group is organised into four major business segments as follows:

i) Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, credit card and funds transfer facilities and trade finance facilities.
ii) Corporate and investment banking:	Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.
iii) Real estate:	Property development and other real estate investments.
iv) Others:	Treasury and other functions.

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.

Primary segment information – business segments

2007

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2007:

	Retail and business banking AED'000	*Corporate and investment banking AED'000*	*Real estate AED'000*	*Others AED'000*	*Total AED'000*
Segment revenue	**2,616,252**	**2,141,932**	**369,088**	**880,702**	**6,007,974**
Operating expenses	**(771,832)**	**(323,936)**	**(121,412)**	**(251,808)**	**(1,468,988)**
Provisions for impairment	**(37,025)**	**(239,898)**	**-**	**(24,545)**	**(301,468)**
Profit for the year before depositors' share, taxation and gain on transfer of interest in subsidiary	**1,807,395**	**1,578,098**	**247,676**	**604,349**	**4,237,518**
Depositors' share of profits	**(1,387,016)**	**(527,186)**	**-**	**(441,812)**	**(2,356,014)**
	420,379	**1,050,912**	**247,676**	**162,537**	**1,881,504**
Net gain on transfer of interest in subsidiary					**617,169**
Taxation					**14,148**
Profit for the year					**2,512,821**
Segment assets	**8,112,849**	**47,208,988**	**4,402,792**	**24,014,130**	**83,738,759**
Segment liabilities and equity	**45,022,326**	**19,994,502**	**3,493,600**	**15,228,331**	**83,738,759**
Capital expenditure	**28,494**	**196,103**	**-**	**104,959**	**329,556**

45 SEGMENTAL INFORMATION

Primary segment information – business segments

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December 2006:

	Retail and business banking AED'000	*Corporate and investment banking AED'000*	*Real estate AED'000*	*Others AED'000*	*Total AED'000*
Segment revenue	2,197,096	1,189,807	628,680	560,874	4,576,457
Operating expenses	(564,197)	(206,804)	(175,249)	(212,164)	(1,158,414)
Provisions for impairment	(36,064)	31,145	-	(71,548)	(76,467)
Profit for the year before depositors' share and taxation	1,596,835	1,014,148	453,431	277,162	3,341,576
Depositors' share of profits	(1,226,893)	(259,782)	-	(270,936)	(1,757,611)
	369,942	754,366	453,431	6,226	1,583,965
Taxation					(6,122)
Profit for the year					1,577,843
Segment assets	4,735,446	34,834,906	3,068,802	21,794,782	64,433,936
Segment liabilities and equity	38,440,177	9,292,305	2,746,250	13,955,204	64,433,936
Capital expenditure	10,169	70,529	-	43,545	124,243

Secondary segment information – geographical segments

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***	
	2007 AED'000	2006 AED'000	**2007 AED'000**	2006 AED'000	**2007 AED'000**	2006 AED'000
Gross income	**6,617,910**	4,267,847	**359,028**	308,610	**6,976,938**	4,576,457
Total assets	**78,819,818**	60,766,381	**4,918,941**	3,667,555	**83,738,759**	64,433,936
Capital expenditure	**243,204**	58,756	**86,352**	65,487	**329,556**	124,243

46 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2007

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	1,027,859	3,877,798	-	-	-	4,905,657
Balances and deposits with banks and other financial institutions	673,802	-	512,855	-	-	1,186,657
International morabahats, short term	6,552,361	8,226,217	1,501,123	-	-	16,279,701
Islamic financing and investing assets	5,965,352	5,658,754	10,716,034	22,168,281	4,379,420	48,887,841
Properties held for sale	-	-	-	131,831	-	131,831
Investment properties	-	-	-	1,499,303	-	1,499,303
Investments in associates	-	-	-	3,741,596	-	3,741,596
Other investments	-	820,849	2,256,750	1,133,278	-	4,210,877
Receivables and other assets	240,825		1,986,894	-	-	2,227,719
Fixed assets	-	-	-	455,504	175,163	630,667
Goodwill	-	36,910	-	-	-	36,910
Total	**14,460,199**	**18,620,528**	**16,973,656**	**29,129,793**	**4,554,583**	**83,738,759**
Customers' deposits	4,760,675	23,487,660	2,085,220	34,683,273	-	65,016,828
Due to banks and other financial institutions	240,660	-	2,000,662	-	-	2,241,322
Sukuks	-	-	-	2,754,750	-	2,754750
Other liabilities	639,886	99,896	523,673	1,667,745	-	2,931,200
Accrued zakat	-	129,542	-	-	-	129,542
Equity	-	1,198,400	-	-	9,466,717	10,665,117
Total	**5,641,221**	**24,915,498**	**4,609,555**	**39,105,768**	**9,466,717**	**83,738,759**
Net liquidity gap	**8,818,978**	**(6,294,970)**	**12,364,101**	**(9,975,975)**	**(4,912,134)**	**-**

46 MATURITY ANALYSIS OF ASSETS AND LIABILITIES – continued

At 31 December 2006

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	826,720	2,159,253	-	125,751	-	3,111,724
Balances and deposits with banks and financial institutions	407,245	-	-	-	-	407,245
International morabahats, short term	13,190,884	1,800,355	-	-	-	14,991,239
Islamic financing and investing assets	6,173,206	3,761,308	10,858,901	13,263,336	1,226,196	35,282,947
Properties under construction	-	-	-	2,171,004	-	2,171,004
Properties held for sale	-	-	-	136,585	-	136,585
Investment properties	-	-	-	761,213	-	761,213
Investments in associates	-			1,050,401	-	1,050,401
Other investments	-	1,069,181	-	2,454,763	-	3,523,944
Receivables and other assets	159,986	2,177,506	49,646	77,985	-	2,465,123
Fixed assets	-	-	-	225,177	270,424	495,601
Goodwill	-	-	-	-	36,910	36,910
Total	20,758,041	10,967,603	10,908,547	20,266,215	1,533,530	64,433,936
Customers' deposits	5,986,288	27,903,718	13,592,534	249,942	-	47,732,482
Due to banks	511,420	49,682	3,973,982	114,816	-	4,649,900
Other liabilities	1,344,889	1,760,335	-	50,045	-	3,155,269
Accrued zakat	-	-	72,035	-	-	72,035
Equity	-	980,000	-	-	7,844,250	8,824,250
Total	7,842,597	30,693,735	17,638,551	414,803	7,844,250	64,433,936
Net liquidity gap	12,915,444	(19,726,132)	(6,730,004)	19,851,412	(6,310,720)	-

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 and profit rate swaps is set out in note 41. 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 2007.

The following describes the assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) the carrying amounts approximate to their fair value. This applies to demand deposits, savings accounts without a specific maturity and variable profit rate financial instruments.

Valuation of all financial instruments recorded at fair value, is based on quoted market prices.

48 FINANCIAL ASSETS AND LIABILITIES

The following are the classifications of financial instruments in accordance with IAS 39:

31 December 2007

	Financing and receivables AED'000	**Available for sale AED'000**	**Fair value through profit and loss AED'000**	**Amortised cost AED'000**	**Total AED'000**
Financial assets					
Balances with central banks	-	-	-	3,877,798	3,877,798
Balances and deposits with banks and financial institutions	-	-	-	1,186,657	1,186,657
International morabahat, short term	-	-	-	16,279,701	16,279,701
Islamic financing and investing assets	48,887,841	-	-	-	48,887,841
Other investments	-	3,390,028	820,849	-	4,210,877
Other assets	1,881,073	-	-	1,040,692	2,921,765
	50,768,914	**3,390,028**	**820,849**	**22,384,848**	**77,364,639**
Financial liabilities					
Customer deposits	-	-	-	65,016,828	65,016,828
Due to banks and other financial institutions	-	-	-	2,241,322	2,241,322
Sukuks	-	-	-	2,754,750	2,754,750
Others	-	-	-	3,057,258	3,057,258
	-	**-**	**-**	**73,070,158**	**73,070,158**

31 December 2006

	Financing and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Total AED'000
Financial assets					
Balances with central banks	-	-	-	2,285,004	2,285,004
Balances and deposits with banks and financial institutions	-	-	-	407,245	407,245
International morabahats, short term	-	-	-	14,991,239	14,991,239
Islamic financing and investing assets	35,282,947	-	-	-	35,282,947
Other investments		2,454,763	1,069,181	-	3,523,944
Other assets	2,281,418	-	-	841,613	3,123,031
	37,564,365	2,454,763	1,069,181	18,525,101	59,613,410
Financial liabilities					
Customer deposits	-	-	-	47,732,482	47,732,482
Due to financial institutions	-	-	-	4,649,900	4,649,900
Others	-	-	-	3,189,481	3,189,481
	-	-	-	55,571,863	55,571,863

49 RISK MANAGEMENT

49.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his responsibilities.

The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

49.1.1 Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Risk Management Committee
The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management and Control
The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The department is responsible for credit approval, credit administration, portfolio management, market risk and overall risk control.

Treasury
Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are audited periodically by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

49.1.2 Risk measurement and reporting systems

The Group measures risks using conventional qualitative methods for credit, market and operational risks. Further, the Group also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries.

49 RISK MANAGEMENT

49.1.2 Risk measurement and reporting systems - continued

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

49.1.3 Risk mitigation

As part of its overall risk management, the Group uses various methods to manage exposures resulting from changes in credit risks, profit rate risk, foreign currencies, equity risks, and credit risks.

The Group seeks manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to guard against liquidity risk, management as diversified funding sources and assets are managed with overall Group liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

49.1.4 Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the Group’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

49.2 Credit Risk

Credit risk is the risk that a customer or counter party will cause a financial loss to the Group by failing to discharge a contractual obligation. The Group manages and controls credit risk by setting limits on the amount of risks it is willing to accept for individual counterparties and for geographical and industry concentrations and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed.

Islamic derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the balance sheet.

Credit-related commitments risks

The Group makes available to its customers guarantees and letters of credit which require that the Group makes payments in the event that the customer fails to fulfil certain obligations to other parties. This expose the Group to a similar risk to financing and investing assets and these are mitigated by the same control processes and policies.

49 RISK MANAGEMENT (continued)

49.2 Credit Risk (continued)

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Gross maximum exposure 2007 AED'000	Gross maximum exposure 2006 AED'000
Balances with central banks	*15*	**3,877,798**	2,285,004
Due from financial institutions	*16*	**1,186,657**	407,245
Short term international morabahat		**16,279,701**	14,991,239
Islamic financing and investing assets	*17*	**50,012,510**	36,164,190
Other investments	*19*	**4,241,734**	3,538,844
Other assets		**1,982,270**	2,325,262
		77,580,670	59,711,784
Contingent liabilities		**18,005,562**	12,174,346
Commitments	*40*	**9,391,000**	4,471,000
Total		**104,977,232**	76,357,130

49.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

At 31 December 2007

	Retail and business banking AED'000	Corporate and investment banking AED'000	Treasury AED'000	Total AED'000
UAE	**7,778,710**	**42,656,065**	**7,787,205**	**58,221,980**
GCC	**-**	**4,005,043**	**867,780**	**4,872,823**
South Asia	**334,139**	**980,694**	**6,550**	**1,321,383**
Europe	**-**	**914,403**	**8,327,953**	**9,242,356**
Africa	**-**	**3,287,061**	**437,923**	**3,724,984**
Others	**-**	**158,197**	**38,947**	**197,144**
Total	**8,112,849**	**52,001,463**	**17,466,358**	**77,580,670**

49 RISK MANAGEMENT - continued

49.2 Credit Risk - continued

49.2.2 Risk concentrations of the maximum exposure to credit risk - continued

At 31 December 2006

	Retail and business banking AED'000	Corporate and investment Banking AED'000	Treasury AED'000	Total AED'000
UAE	4,735,446	30,118,746	2,996,288	37,850,480
GCC	-	2,379,693	5,956,659	8,336,352
South Asia	-	690,236	15,260	705,496
Europe	-	1,493,145	6,155,858	7,649,003
Africa	-	4,704,700	212,251	4,916,951
Others	-	191,335	62,167	253,502
Total	4,735,446	39,577,855	15,398,483	59,711,784

An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure	
	2007 AED'000	2006 AED'000
Financial Institutions	**27,286,793**	24,415,307
Government	**5,309,040**	2,070,685
Real Estate	**19,220,561**	13,969,640
Manufacturing and services	**13,664,631**	13,646,137
Trade	**4,539,389**	3,526,785
Retail	**7,560,256**	2,083,230
Total	**77,580,670**	59,711,784

49.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.
The main types of collateral obtained are as follows:

- For commercial financing and investing, charges over real estate properties, inventory and trade receivables,
- For retail financing and investing, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for financing to their subsidiaries, but the benefits are not included in the above table.

49 RISK MANAGEMENT - continued

49.2 Credit Risk - continued

49.2.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for financing related balance sheet lines, based on the Bank's credit rating system.

At December 2007

	Non-impaired exposures			
	Low and fair risk AED'000	**Past due AED'000**	**Individually impaired AED'000**	**Total AED'000**
Balances with Central banks	**3,877,798**	**-**	**-**	**3,877,798**
Due from financial institutions	**1,186,657**	**-**	**-**	**1,186,657**
International morabahat, short term	**16,279,701**	**-**	**-**	**16,279,701**
Islamic financing and investing assets	**47,199,432**	**1,128,333**	**1,684,745**	**50,012,510**
Other investments	**4,128,352**	**-**	**113,382**	**4,241,734**
Other assets	**1,956,591**	**-**	**25,679**	**1,982,270**
Total	**74,628,531**	**1,128,333**	**1,823,806**	**77,580,670**

At December 2006

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	2,285,004	-	-	2,285,004
Due from financial institutions	407,245	-	-	407,245
International morabahat, short term	14,991,239	-	-	14,991,239
Islamic financing and investing assets	33,966,531	781,323	1,416,336	36,164,190
Other investments	3,149,987	-	388,857	3,538,844
Other assets	2,296,313	-	28,949	2,325,262
Total	57,096,319	781,323	1,834,142	59,711,784

Past due items include those that are only past due by a few days. An analysis of past due investing and financing assets, by age, is provided. The majority of the past due items are not considered to be impaired.

49 RISK MANAGEMENT - continued

49.2 Credit Risk - continued

49.2.4 Credit quality per class of financial assets - continued

Credit risk exposure of the Bank's on- balance sheet financial assets for each internal risk rating

	Moody's equivalent grades	***Total 2007 AED'000***	*Total 2006 AED'000*
Low risk			
Risk rating class 1	Aaa	**17,826,344**	12,204,251
Risk rating classes 2 and 3	Aa1-A3	**28,516,452**	23,529,485
Fair risk			
Risk rating class 4	Baa1-Baa3	**11,440,073**	8,632,483
Risk rating classes 5 and 6	Ba1-B3	**13,483,971**	9,177,230
Risk rating class 7	Caa1-Caa3	**3,361,691**	3,552,869
Sub standard			
Risk rating class 8		**1,128,333**	781,323
Impaired			
Risk rating classes 9, 10 and 11		**1,823,806**	1,834,142
		77,580,670	59,711,783

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

49.2.5 Aging analysis of past due but not impaired investing and financing assets per class of financial assets

As at December 2007

	Less than 30 Days AED'000	**31 to 60 days AED'000**	**61 to 90 days AED'000**	**More than 90 Days AED'000**	**Total AED'000**
Islamic financing and investing assets	**782,178**	**79,646**	**35,939**	**230,570**	**1,128,333**

As at December 2006

	Less than 30 Days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 Days AED'000	Total AED'000
Islamic financing and investing assets	456,914	78,831	128,175	117,403	781,323

See Note 17 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

49 RISK MANAGEMENT - continued

49.2.6 Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2007	2006
	AED '000	AED '000
Islamic financing and investing assets	**129,352**	112,312

49.2.7 Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Group determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Group's overall policy.

Acceptances, letters of credit and guarantees are assessed and provision made in a similar manner as for Islamic financing and investing assets.

49.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

49 RISK MANAGEMENT - continued

49.3 Liquidity risk and funding management - continued

During 2007, the Bank issued its five year United States Dollar (USD) sukuks amounting to USD 750 million to diversify sources of funding to support business growth going forward.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help these form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

49.3.1 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

49.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

49.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

As at 31 December 2007

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Customer deposits	**16,299,754**	**27,398,719**	**21,139,567**	**1,630,548**	**-**	**66,468,588**
Due to banks and other financial institutions	**240,660**	**643,007**	**1,412,330**	**-**	**-**	**2,295,997**
Sukuks	**-**	**34,082**	**102,245**	**3,163,731**	**-**	**3,300,058**
Other liabilities	**1,457,014**	**108,678**	**971,592**	**393,916**	**-**	**2,931,200**
Zakat payable	**-**	**129,542**	**-**	**-**	**-**	**129,542**
Total liabilities	**17,997,428**	**28,314,028**	**23,625,734**	**5,188,195**	**-**	**75,125,385**

49 RISK MANAGEMENT - continued

49.3 Liquidity risk and funding management - continued

49.3.3 Non-derivative cash flows – continued

As at 31 December 2006

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Customer deposits	14,887,667	18,915,782	13,937,708	935,088	-	48,676,245
Due to banks and other financial institutions	199,921	4,313,478	199,520	-	-	4,712,919
Other liabilities	1,344,889	192,779	775,087	842,514	-	3,155,269
Zakat payable	-	72,035	-	-	-	72,035
Total liabilities	16,432,477	23,494,074	14,912,315	1,777,602	-	56,616,468

Assets available to meet all of the liabilities and to cover outstanding commitments include cash, central bank balances, items in the course of collection, short term international morabahat with banks, investing and financing assets and other investments.

49.3.4 Derivative cash flows

The Group's derivatives will be settled on the following basis:

- Foreign exchange derivatives: This mainly comprises foreign exchange contracts which are a promise to either buy or sell a specified currency at a specific price and date in the future.
- Profit rate derivatives: Comprise profit rate swaps.

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

As at 31 December 2007

	On demand AED'000	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Foreign exchange contracts	**-**	**12,009,606**	**356,084**	**2,571,100**	**-**	**14,936,790**
Islamic profit rate swaps	-	-	-	**4,530,033**	-	**4,530,033**
	-	**12,009,606**	**356,084**	**7,101,133**	**-**	**19,466,823**

As at 31 December 2006

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Foreign exchange contracts	-	2,545,589	116,356	-	-	2,661,945
Islamic profit rate swaps	-	-	-	-	-	-
	-	2,545,589	116,356	-	-	2,661,945

49 RISK MANAGEMENT - continued

49.3 Liquidity risk and funding management - continued

49.3.5 Off Balance Sheet items

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

As at 31 December 2007

	On demand AED'000	**Less than 3 months AED'000**	**3 months to 1 year AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Commitments on behalf of customers:						
- Letters of guarantee	**-**	**2,770,614**	**4,844,649**	**1,851,646**	**914,570**	**10,381,479**
- Letters of credit	**-**	**2,181,190**	**2,015,948**	**1,964,658**	**-**	**6,161,796**
- Acceptances	**-**	**723,761**	**513,731**	**224,795**	**-**	**1,462,287**
	-	**5,675,565**	**7,374,328**	**4,041,099**	**914,570**	**18,005,562**
Capital commitments	**-**	**-**	**49,167**	**529,132**		**578,299**
Total	**-**	**5,675,565**	**7,423,495**	**4,570,231**	**914,570**	**18,583,861**

As at 31 December 2006

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	1,936,987	5,465,888	1,237,217	398,650	9,038,742
- Letters of credit	-	1,340,281	548,073	653,994	-	2,542,348
- Acceptances	-	358,392	196,473	38,391	-	593,256
	-	3,635,660	6,210,434	1,929,602	398,650	12,174,346
Capital commitments	-	-	102,733	983,714	-	1,086,447
Total	-	3,635,660	6,313,167	2,913,316	398,650	13,260,793

49 RISK MANAGEMENT - continued

49.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with the Group's general market risk policy. The CEO of the Group ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

49.4.1 Profit margin risk

The Group is not significantly exposed to 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.

49.4.2 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 Group 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 Group 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 following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2007.

Currency	**Increase in basis points 2007**	**Sensitivity of profit on financing and investing assets AED'000**	Increase in basis points 2006	Sensitivity of profit on financing and investing assets AED'000
AED	**50**	**25,836**	50	15,941
USD	**50**	**35,358**	50	31,689
Euro	**50**	**349**	50	360
Other currencies	**50**	**364**	50	450

49 RISK MANAGEMENT - continued

49.4 Market risk - continued

49.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Banks presentation currency, the UAE Dirham.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Group's financial instruments at carrying amounts, categorized by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2007

	AED AED'000	USD AED'000	Other GCC AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Balances with central banks	3,748,583	112,074	-	-	-	17,141	3,877,798
Due from financial institutions	614,928	211,365	92,918	9,018	18,941	239,487	1,186,657
Short term international morabahat	5,920,483	10,359,218	-	-	-	-	16,279,701
Islamic financing and investing assets	31,522,091	14,213,285	111,248	-	75,797	2,965,420	48,887,841
Other investments	1,771,817	1,551,647	314,532	-	141,041	431,840	4,210,877
Other assets	2,661,650	154,971	18,913	-	479	85,752	2,921,765
Total	46,239,552	26,602,560	537,611	9,018	236,258	3,739,640	77,364,639
Liabilities							
Customers' deposits	53,005,059	8,201,948	119,529	34,857	205,212	3,450,223	65,016,828
Due to banks and other financial institutions	710,271	1,438,800	28	-	18,190	74,033	2,241,322
Sukuks	-	2,754,750	-	-	-	-	2,754,750
Others	2,353,280	601,416	93,042	303	4,062	5,155	3,057,258
Total	56,068,610	12,996,914	212,599	35,160	227,464	3,529,411	73,070,158
Net on balance sheet financial position	(9,829,058)	13,605,646	325,012	(26,142)	8,794	210,229	4,294,481
Foreign exchange contracts	12,601,924	(12,487,665)	(38,788)	(16,662)	(57,067)	(1,742)	-
Cumulative currency position – long / (short)	2,772,866	1,117,981	286,224	(42,804)	(48,273)	208,487	4,294,481

49 RISK MANAGEMENT - continued

49.4 Market risk - continued

49.4.3 Foreign exchange risk

At 31 December 2006

	AED AED'000	USD AED'000	Other GCC AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Balances with central banks	1,941,216	76,885	-	-	-	266,903	2,285,004
Due from financial institutions	2,963	40,346	-	6,424	20,126	337,386	407,245
Short term international morabahat	1,541,507	12,669,791	342,259	437,682	-	-	14,991,239
Islamic financing and investing assets	17,742,470	16,438,989	418,326	21,709	255,094	406,359	35,282,947
Other investments	2,316,414	492,271	274,586	-	24,444	416,229	3,523,944
Other assets	2,160,280	124,695	11,336	-	-	826,720	3,123,031
Total	25,704,850	29,842,977	1,046,507	465,815	299,664	2,253,597	59,613,410
Liabilities							
Customers' deposits	36,444,847	10,737,775	408,644	5,128	134,145	1,943	47,732,482
Due to banks and other financial institutions	1,201,505	2,761,077	3,715	438,451	4,872	240,280	4,649,900
Others	2,431,689	647,390	100,154	326	4,373	5,549	3,189,481
Total	40,078,041	14,146,242	512,513	443,905	143,390	247,772	55,571,863
Net on balance sheet financial position	(14,373,191)	15,696,735	533,994	21,910	156,274	2,005,825	4,041,547
Foreign exchange contracts	77,141	90,749	-	(18,151)	(153,956)	4,217	-
Cumulative currency position – long / (short)	(14,296,050)	15,787,484	533,994	3,759	2,318	2,010,042	4,041,547

49 RISK MANAGEMENT - continued

49.4.3 Foreign exchange risk

Sensitivity analysis – impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant, including the effect of hedging instruments, on the income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated on available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in % 2007**	**Effect on profit before tax 2007 AED '000**	Increase in currency rate in % 2006	Effect on profit before tax 2006 AED '000
USD	**+2**	**22,360**	+2	315,750
GBP	**+2**	**(856)**	+2	75
EURO	**+2**	**(965)**	+2	46

Currency	**Decrease in currency rate in % 2007**	**Effect on profit before tax 2007 AED '000**	Decrease in currency rate in % 2006	Effect on profit before tax 2006 AED '000
USD	**-2**	**(22,360)**	-2	(315,750)
GBP	**-2**	**856**	-2	(75)
EURO	**-2**	**965**	-2	(46)

49.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Banks presentation currency, the UAE Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December 2007 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in % 2007**	**Effect on profit before tax 2007 AED '000**	**Effect on Equity 2007 AED '000**	Increase in currency rate in % 2006	Effect on profit before tax 2006 AED '000	Effect on Equity 2006 AED '000
Pak Rupees	+5	(1,645)	13,397	+5	(2,565)	10,688
Sud Pound	+5	11,215	22,109	+5	1,993	27,874

49 RISK MANAGEMENT - continued

49.4.4 Foreign investment

Currency	**Decrease in currency rate in % 2007**	**Effect on profit before tax 2007 AED '000**	**Effect on Equity 2007 AED '000**	Decrease in currency rate in % 2006	Effect on profit before tax 2006 AED '000	Effect on Equity 2006 AED '000
Pak Rupees	-5	1,496	(12,120)	-5	2,331	(9,651)
Sud Pound	-5	9,039	(20,004)	-5	(1,803)	(25,219)

49.4.5 Equity price risk

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

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2007) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	**% Change in Market indices**	**Effect on income statement 2007 AED'000**	**Effect on equity 2007 AED'000**	Effect on income statement 2006 AED'000	Effect on equity 2006 AED'000
Dubai Financial Market	5%	**-**	**77,763**	7,518	18,136
Exchange	5%	**51**	**1,699**	669	-
Bahrain Stock Exchange	5%	**3,608**	**-**	3,672	-
Kuwait Stock Exchange	5%	**10,686**	**-**	9,444	-
Saudi Stock Exchange	5%	**-**	**1,365**	-	-
Others	5%	**389**	**(1,914)**	248	-

49.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The bank is in the process of developing and documenting a detailed operational risk framework. The framework aims at laying out clearly defined roles and responsibilities of individuals/ units across different functions of the bank that would be involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Dubai Islamic Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

49 RISK MANAGEMENT - continued

49.6 Capital management

49.6.1 Regulatory capital

The Group's lead regulator the Central Bank of UAE sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations within the Group are directly supervised by their respective local regulators.

The central bank of the UAE vide circular No 13 / 93 requires all banks operating in the UAE to maintain a risk asset ratio at a minimum of 10% at all times in which tier 1 capital should not be less than 6% of total risk weighted assets. In implementing current capital requirements of the Central Bank of UAE, the Group maintains the required ratio of regulatory capital to total risk-weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Capital management
The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	2007	2006
	AED'000	AED'000
Tier 1 Capital		
Share capital	**2,996,000**	2,800,000
Statutory reserves	**2,756,737**	2,761,030
General reserves	**1,650,000**	895,000
Retained earnings	**53,654**	43,197
Minority interest	**250,810**	287,100
Other reserves	**303,479**	317,274
Proposed bonus shares	**449,400**	196,000
Less: Goodwill and intangibles	**(36,910)**	(36,910)
Total	**8,423,170**	7,262,691

49.6 Capital management

	2007 AED'000	2006 AED'000
Tier 2 Capital		
Cumulative changes in fair value	**1,006,637**	544,649
Deductions for associates	**(3,741,596)**	(1,050,401)
Total capital base	**5,688,211**	6,756,939
Risk weighted assets		
On balance sheet	**45,190,253**	36,496,279
Off balance sheet	**6,617,777**	6,005,435
Total risk weighted assets	**51,808,030**	42,501,714
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**11.0%**	15.9%
Tier 1 capital to total risk weighted assets after deductions for associates	**9.0%**	14.6%

50 COMPARATIVE INFORMATION

Business segment reporting has been re-classified to conform with the Group's revised reporting segments.

Certain other comparative amounts have been re-classified to conform to the presentation adopted during the current year. Such re-classifications have had no effect on reported results or shareholders equity and were immaterial, both individually and in aggregate.