Emirates NBD
Public Joint Stock Company

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

KPMG

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Independent auditors' report

The Shareholders
Emirates NBD PJSC

Report on the financial statements

We have audited the accompanying consolidated financial statements of Emirates NBD PJSC ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company, Federal Law No. 8 of 1984 (as amended) and Federal Law No. 10 of 1980. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

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

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 and the articles of association of the Company; proper books of account have been kept by the Company 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 Company, Federal Law No. 8 of 1984 (as amended) or Federal Law No. 10 of 1980 have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

	KPMG	Ernst & Young
	KPMG	Ernst & Young
Name:	Vijendra N Malhotra	Edward B Quinlan
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	12 FEB 2008	12 FEB 2008

EMIRATES NBD PJSC

GROUP CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007

	Notes	2007 AED 000	2006 AED 000
ASSETS			
Cash and deposits with Central Bank	3	29,226,054	6,778,440
Due from banks	4	12,800,902	6,822,405
Loans and receivables	5	152,002,233	59,278,208
Islamic financing and investment products	6	14,471,737	6,558,310
Trading securities	7	5,419,840	3,162,764
Investment securities	8	18,129,602	5,608,502
Investment in associates and joint venture	9	2,712,372	2,296,707
Investment properties	10	826,905	269,025
Property and equipment	11	1,638,254	438,379
Goodwill	13	6,178,627	14,184
Positive fair value of derivatives	35	3,756,345	2,034,218
Customer acceptances	39	2,851,216	1,020,791
Other assets	14	3,798,165	1,596,208
TOTAL ASSETS		253,812,252	95,878,141
LIABILITIES			
Customer deposits	15	124,104,425	40,887,052
Islamic customer deposits	16	14,541,970	9,045,374
Due to banks	17	46,328,057	19,975,276
Repurchase agreements with banks	18	5,610,043	355,087
Debt issued and other borrowed funds	19	27,662,230	12,083,060
Sukuk payable	20	1,267,185	-
Negative fair value of derivatives	35	2,750,833	2,075,822
Customer acceptances	39	2,851,216	1,020,791
Other liabilities	21	3,537,475	1,557,632
TOTAL LIABILITIES		228,653,434	87,000,094
EQUITY			
Issued capital	22	4,393,498	2,331,896
Treasury shares	22	(46,175)	-
Share premium reserve	22	12,270,124	-
Legal and statutory reserve	23	1,260,205	982,205
Other reserves	23	3,917,410	4,294,484
Cumulative changes in fair value	24	863,890	343,285
Retained earnings		2,497,919	924,611
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		25,156,871	8,876,481
Minority interests		1,947	1,566
TOTAL EQUITY		25,158,818	8,878,047
TOTAL LIABILITIES AND EQUITY		253,812,252	95,878,141

The notes set out on pages 6 to 93 form part of these group consolidated financial statements.

Chairman Director Chief Executive Officer

12 FEB 2008

EMIRATES NBD PJSC

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 AED 000	2006 AED 000
Interest income	25	7,379,873	4,046,545
Interest expense	25	(4,714,065)	(2,593,446)
Net interest income		2,665,808	1,453,099
Income from Islamic financing and investment products	26	554,574	287,723
Distribution to depositors and profit paid to Sukuk holders	27	(454,702)	(240,954)
Net income from Islamic financing and investment products		99,872	46,769
Net interest income and income from Islamic financing and investment products net of distribution to depositors		2,765,680	1,499,868
Fee and commission income		1,332,024	1,133,626
Fee and commission expense		(352,914)	(141,017)
Net fees and commission income	28	979,110	992,609
Net gain/(loss) on trading securities	29	264,247	(11,557)
Other operating Income	30	950,184	415,289
Total operating income		4,959,221	2,896,209
General and administrative expenses	31	(1,927,192)	(1,141,791)
Impairment loss on financial assets	5	(617,655)	(166,587)
Total operating expenses		(2,544,847)	(1,308,378)
Operating profit		2,414,374	1,587,831
Amortisation of intangibles	13	(19,015)	-
Share of profit of associates and joint ventures	9	375,549	300,461
Group profit for the year		2,770,908	1,888,292
Attributable to:			
Equity holders of the Group		2,770,527	1,888,092
Minority interests		381	200
Group profit for the year		2,770,908	1,888,292

	Notes	2007 (AED)	2006 (AED)
Earnings per share	34	0.86	0.65

The notes set out on pages 6 to 93 form part of these group consolidated financial statements.

EMIRATES NBD PJSC

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 AED 000	2006 AED 000
OPERATING ACTIVITIES		
Group profit for the year	2,770,908	1,888,292
Adjustment for non cash items		
Impairment allowances on loans and receivables	649,630	198,481
Impairment allowances on Islamic financing and investment products	73,728	47,123
Impairment of goodwill	4,903	-
Amortisation of Intangible assets	19,015	-
Depreciation on property and equipment	114,255	70,940
Share of profit of associate companies and joint ventures	(375,549)	(300,461)
Operating profit before changes in operating assets and liabilities	3,256,890	1,904,375
Increase in statutory deposits	(4,473,999)	(490,111)
Decrease/(increase) in amounts due from banks maturing after 3 months	4,396,169	(177,596)
(Decrease)/increase in amounts due to banks maturing after 3 months	(16,344,188)	3,989,931
Net change in other liabilities/other assets	28,303	51,794
Net change in fair value of derivatives	(1,047,559)	14,087
Increase in customer deposits	27,424,987	16,874,370
Increase in loans and receivables	(35,530,821)	(20,909,443)
Increase in Islamic financing and investment products	(7,987,155)	(4,433,801)
Net cash flows used in operating activities	(30,277,373)	(3,176,394)
INVESTING ACTIVITIES		
Decrease/(increase) in trading and investment securities (net)	7,956,093	(5,567,692)
Increase in investment properties (net)	(337,880)	(140,296)
Cash on acquisition	7,652,229	-
Acquisition of subsidiaries	(118,312)	(14,184)
Additions to property and equipment (net)	(443,118)	(266,434)
Net cash flows from/(used in) investing activities	14,709,012	(5,988,606)
FINANCING ACTIVITIES		
Increase in medium term borrowing (net)	10,746,850	5,673,675
Increase in sukuk borrowings	1,267,185	-
Increase in minority interests	-	78
Increase in share capital	300	-
Dividends paid	(699,569)	(448,442)
Net cash flows from financing activities	11,314,766	5,225,311
Decrease in cash and cash equivalents [see note 43]	(4,253,595)	(3,939,689)

The notes set out on pages 6 to 93 form part of these group consolidated financial statements.

EMIRATES NBD PJSC

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

	Issued Capital AED 000	Treasury shares AED 000	Share premium reserve AED 000	Legal and Statutory reserve [See note 23] AED 000	Other reserves [See note 23] AED 000	Cumulative changes in fair value [See note 24] AED 000	Retained Profits AED 000	Total AED 000	Minority interests AED 000	Group Total AED 000
Balance as at 1 January 2006	1,793,766	-	-	792,205	3,778,614	647,135	737,211	7,748,931	1,288	7,750,219
Income and expense recognised directly in equity	-	-	-	-	-	(303,850)	-	(303,850)	-	(303,850)
Group profit for the year	-	-	-	-	-	-	1,888,092	1,888,092	200	1,888,292
Total income and expense for the year	-	-	-	-	-	(303,850)	1,888,092	1,584,242	200	1,584,442
Dividends paid	-	-	-	-	-	-	(448,442)	(448,442)	-	(448,442)
Issuance of bonus shares	538,130	-	-	-	(538,130)	-	-	-	-	-
Transfers to reserves	-	-	-	190,000	1,054,000	-	(1,244,000)	-	-	-
Acquisition of minority interest	-	-	-	-	-	-	-	-	78	78
Directors' fees [see note 32]	-	-	-	-	-	-	(8,250)	(8,250)	-	(8,250)
Balance as at 31 December 2006	2,331,896	-	-	982,205	4,294,484	343,285	924,611	8,876,481	1,566	8,878,047
Balance as at 1 January 2007	2,331,896	-	-	982,205	4,294,484	343,285	924,611	8,876,481	1,566	8,878,047
Income and expense recognised directly in equity	-	-	-	-	-	520,605	-	520,605	-	520,605
Group profit for the year	-	-	-	-	-	-	2,770,527	2,770,527	381	2,770,908
Total income and expense for the year	-	-	-	-	-	520,605	2,770,527	3,291,132	381	3,291,513
Dividends paid	-	-	-	-	-	-	(699,569)	(699,569)	-	(699,569)
Increase in share capital	300	-	-	-	-	-	-	300	-	300
Issuance of new shares on acquisition of NBD	1,478,328	-	12,270,124	-	-	-	-	13,748,452	-	13,748,452
Treasury stock arising from reverse acquisition	-	(46,175)	-	-	-	-	-	(46,175)	-	(46,175)
Issuance of bonus shares	582,974	-	-	-	(582,974)	-	-	-	-	-
Transfer to reserves	-	-	-	278,000	205,900	-	(483,900)	-	-	-
Directors' fees [see note 32]	-	-	-	-	-	-	(13,750)	(13,750)	-	(13,750)
Balance as at 31 December 2007	4,393,498	(46,175)	12,270,124	1,260,205	3,917,410	863,890	2,497,919	25,156,871	1,947	25,158,818

In accordance with the Ministry of Economy and Planning interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 6 to 93 form part of these group consolidated financial statements.

1 LEGAL STATUS AND ACTIVITIES

Emirates NBD PJSC, ("ENBD" or the "Company") was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Company was incorporated principally to give effect to the merger between Emirates Bank International PJSC ("EBI") and National Bank of Dubai PJSC ("NBD"). The Company acts as holding company of both EBI and NBD (together referred to as the "Group"). The merger became effective from 16 October 2007.

The ultimate parent company of the Group is Investment Corporation of Dubai.

The Company is listed on the Dubai Financial Market. The Company's principal business activity is investment holding. For details of activities of subsidiaries, refer to note 38.

The financial statements have been prepared according to IFRS 3 Business Combinations. IFRS 3 requires that an acquirer be identified in any business combination and acquisition accounting principles be applied. EBI has been identified as the "deemed acquirer" in this transaction. The principles of reverse acquisition have been used to reflect the acquisition of EBI by ENBD. No adjustments have been made to the fair values of EBI's assets and liabilities in the consolidated balance sheet. The results for the year ended 31 December 2007 include the full year results of EBI and its subsidiaries and the period between 16 October 2007 to 31 December 2007 for NBD and its subsidiaries. The comparative amounts for the year ended 31 December 2006 are those of EBI and its subsidiaries.

The registered address of the Company is Post Box 2923, Dubai, United Arab Emirates ("UAE").

These group consolidated financial statements have been approved for issue by the Board of Directors on 12 February 2008.

2 ACCOUNTING POLICIES

(a) Statement of compliance:

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable requirements of the laws in the UAE.

The principal accounting policies adopted in the preparation of these Group consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2 ACCOUNTING POLICIES (continued)

(b) Basis of preparation:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value;
- recognised assets and liabilities that are hedged are measured at fair value in respect of the risk that is hedged; and
- liabilities for cash settled share based payments are measured at fair value.

These consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 2 (e).

(c) Changes in accounting policies:

The Group has adopted the following new standards in the current financial year.

- IAS 1 Presentation of Financial Statements – Capital Disclosures require the Group to disclose information that enables users of its consolidated financial statements to evaluate the entity's objectives, policies and processes for managing capital.

- IFRS 7 Financial Instruments – Disclosures require the Group to disclose the qualitative and quantitative information about its exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.

- IFRIC Interpretation 9 as of 1 January 2007, 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.

2 ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies: (continued)

- IFRIC 10 Interim Financial Reporting and Impairment – The Group 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.

IFRS 7 and IAS 1, which become mandatory for the Group's 2007 financial statements, have no impact on the consolidated financial statements of the Group except for the disclosures as required under the respective IAS and IFRS.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. A subsidiary is excluded from consolidation from the date control ceases.

Subsidiaries are consolidated on a line-by-line basis and full provision is made for the minority interest's share in the results for the year and for their share of the net assets of the subsidiaries. The effects of intra group transactions are eliminated in preparing the Group consolidated financial statements.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are stated on an equity basis at cost plus an appropriate share of the associate's profits and losses post acquisition. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Where there has been a change recognized directly in the equity of the associate, the Group recognises its share of any such changes and discloses this, where applicable, in the statement of changes in equity.

(iii) Joint venture

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognises its interest in joint ventures using the equity method of accounting.

2 ACCOUNTING POLICIES (continued)

(d) Basis of consolidation (continued)

(iii) Joint venture (continued)

Under the equity method, the investment in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the joint venture. The income statement reflects the share of the results of operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any such changes and discloses this, when applicable, in the statement of changes in equity.

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

(e) Use of estimates

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision of unquoted investment securities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Significant items where the use of estimates and judgements are required are outlined below:

(i) Allowances for impairment of loans and receivables, Islamic financing and investment products

The Group reviews its loan and receivables portfolio, Islamic financing and investment products to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans or Islamic financing and investment products. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

2 ACCOUNTING POLICIES (continued)

(e) Use of estimates – (continued)

(i) Allowances for impairment of loans and receivables, Islamic financing and investment products – (continued)

In addition to specific allowance against individually significant loans and receivables and Islamic 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 loan 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.

(ii) 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 derivatives.

(iii) Impairment of available-for-sale investment securities

The Group determines that available-for-sale investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates factors such as credit rating of the institution issuing the instrument and financial performance of the issuer.

(iv) Held to maturity investment securities

The Group follows the guidance of IAS 39 (revised) on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for the specific circumstances, such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

2 ACCOUNTING POLICIES (continued)

(f) Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Commission and fee income is accounted for on an accrual. Dividend income is recognised when the Group's right to receive the dividend is established. Recoveries in respect of loans and receivables that have been identified as fully impaired are accounted for on a cash receipts basis.

(g) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease.

(h) Financial instruments

(i) Classification

- Trading Securities:

  Trading securities are initially recorded at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement in the period in which they arise. Interest earned and dividends received are included in interest income and other operating income respectively.

2 ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(i) Classification (continued)

- Investment Securities:

(1) Held to maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

Held-to-maturity (HTM) investments are carried at cost (less impairment, if any).

Sale of HTM investments is allowed only under the following circumstances:

- o The Investment is close enough to maturity as to have no impact on fair value;
- o The principal is substantially received;
- o Isolated event beyond the Group's control:
- o significant credit deterioration:
- o major business combination or disposal; or
- o increase in regulatory capital requirements.

(2) Available-for-sale

Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices.

Available-for-Sale (AFS) financial assets may be freely sold or hedged. All AFS financial assets are measured at fair value. The differences between cost and fair value are taken to equity and recognised as a separate component in the balance sheet, except in the case of impairment where the loss is taken to the income statement. When the financial asset is sold, the full quantum of the difference between the fair value and cost, posted previously to equity, transferred to the income statement.

- Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are carried at amortised cost (less impairment) and include:

- o Originated loans and syndicated loans funded on origination;
- o Loans acquired (purchased) by the Group either from the issuer or another source, provided that they are not quoted in an active market.

2 ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(ii) Recognition

Financial assets and liabilities are recognized on the balance sheet when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated as fair value through profit or loss or available-for-sale assets are recognised. Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Derecognition

The Group derecognises financial assets when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows the financial asset in a transaction in which substantially all the risks and rewards of the ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Measurement

A financial asset or a financial liability is recognized initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

(v) Embedded derivatives

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2 ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(vi) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(vii) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

(viii) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

2 ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(viii) Impairment (continued)

Loans and receivables are presented net of allowances for impairment. The recoverable amount of individually significant loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted. Impairment allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amounts. Collective allowances are maintained to reduce the carrying amount of groups of homogenous loans and receivables to their estimated recoverable amounts at the balance sheet date. Increases in the allowances account is recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

In the case of an investment security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale investment security, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment security previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale financial assets are not reversed through the income statement.

If in a subsequent period, the fair value of an available-for-sale debt instrument increases which can be linked objectively to an event occurring after the write down, the write-down or impairment allowance is reversed through the income statement.

(i) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the balance sheet date and the resulting gains and losses are taken to the Group consolidated income statement. Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to other reserves (exchange retranslation differences).

2 ACCOUNTING POLICIES (continued)

(j) Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. Freehold buildings (other than those held as investment and development properties) are depreciated on a straight-line basis over a maximum period between 20 to 25 years.

Leasehold premises are amortised over their respective lease periods. Other assets are depreciated on a straight-line basis over their estimated useful lives, principally between 3 and 10 years.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

(k) Income taxes and deferred taxation

Income tax payable on taxable profits, based on the applicable tax laws in each overseas jurisdiction where the Group operates, is recognised as an expense in the period in which such taxable profits arise. This also includes any adjustment that may be required to tax payable in respect of previous years.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

2 ACCOUNTING POLICIES (continued)

(l) Investment properties

(i) Islamic Bank:

Properties acquired by the Islamic Bank for development or to be leased out, are classified as investment properties. Such investment properties are recognised at cost less accumulated depreciation and impairment allowance, if any.

(ii) Others:

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 in accordance with the cost model of IAS 40. Depreciation is charged on a straight-line basis over the estimated useful lives of such assets.

The freehold land included under investment properties is not subject to depreciation.

(m) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

2 ACCOUNTING POLICIES (continued)

(n) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees are made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year.

(iii) Employees long term incentive plan (“LTIP”)

With effect from 01 April 2006, the Group has introduced two Long Term Incentive Plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting.

The fair value of the amount payable to employees in respect of LTI units which are settled in cash is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The amount recognised as an expense is adjusted to reflect the actual number of LTI units that vest. The liability is re measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff-related expense in the Group consolidated income statement.

(o) Hedging instruments

Hedging instruments include futures, forwards and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rate and currency risk.

2 ACCOUNTING POLICIES (continued)

(o) Hedging instruments (continued)

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments [refer note 2 (e) (ii)].

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,
- Hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement.

2 ACCOUNTING POLICIES (continued)

(o) Hedging instruments (continued)

(ii) Cash flow hedge (continued)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(p) Cash and cash equivalents

Cash and cash equivalents consist of cash and balances with central bank and balances with banks and financial institutions maturing within three months, less balances due to banks and financial institutions maturing within three months.

(q) Offsetting financial instruments

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

(r) Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are disclosed in the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell (‘reverse repos’) are recorded as loans and receivables to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

(s) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

(t) Leases

The total payments made under operating leases such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

2 ACCOUNTING POLICIES (continued)

(u) Islamic financing and investment products

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity, 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.

Istissna'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 on a fixed date at an agreed price.

Ijara

An agreement whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement. Also, where the bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rub-Ul-Mal and the other provides efforts and expertise and is called the Mudareb and he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; The Rab-Ul-Mal would bear the loss of his funds while the Mudareb would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudareb would bear the losses. The Group may act as Mudareb when accepting funds from depositors and as Rub-Ul-Mal when investing such funds on a Mudaraba basis.

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.

2 ACCOUNTING POLICIES (continued)

(u) Islamic Financing and Investment products (continued)

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows :

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit rate method on the balance outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) is accounted for on a time proportion basis.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract.

Mudaraba

Income on mudaraba financing is recognised on distribution by the mudarib, whereas the losses are charged to income on their declaration by the mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(v) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries.

Goodwill on acquisitions

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the Group consolidated income statement.

2 ACCOUNTING POLICIES (continued)

(v) Intangible assets (continued)

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

Impairment

Goodwill is review 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 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 of group 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 base of either the Groups primary or Groups secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of 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.

2 ACCOUNTING POLICIES (continued)

(v) Intangible assets – (continued)

(ii) Capitalised Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to five years.

(iii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite of indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of intangible asset.

2 ACCOUNTING POLICIES (continued)

(w) New standards and interpretations not yet effective

Certain new standards and interpretations which are not yet effective for the year ending 31 December 2007 and therefore have not been applied in preparing these financial statements are as follows :

- IFRS 8 - Operating Segments: This standard introduces the management approach to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (note no 43).

- IFRIC 13 - Customer Loyalty Programme: addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free of discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.

- IAS 1 - Presentation of Financial Statements (Revised): The application of this standard will result in amendments to the presentation of the Group's 2007 financial statements.

- IAS 23 - Borrowing Costs (Revised): 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 Group 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.

The other new standards and revisions have no material impact to the financial statements of the Group.

3 CASH AND DEPOSITS WITH CENTRAL BANK

	2007 AED 000	2006 AED 000
Cash	1,493,275	638,628
Interest free statutory and special deposits with Central Bank	11,834,779	2,254,812
Interest bearing certificates of deposit with Central Bank	15,898,000	3,885,000
	29,226,054	6,778,440

The reserve requirements are kept with the UAE Central Bank in AED and US Dollar, are not available for use in the Group's day to day operations and cannot be withdrawn without its approval. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

4 DUE FROM BANKS

	2007 AED 000	2006 AED 000
Time loans	8,314,017	4,774,888
Overnight, call and short notice	4,528,885	2,100,317
Gross due from banks	12,842,902	6,875,205
Allowances for impairment	(42,000)	(52,800)
	12,800,902	6,822,405

The average yield on these placements was 4.5% p.a. (2006 - 4.4% p.a.).

5 LOANS AND RECEIVABLES

(a) By type

	2007 AED 000	2006 AED 000
Overdrafts	46,610,793	21,282,181
Time loans	93,962,781	31,931,035
Loans against trust receipts	4,168,196	1,946,946
Bills discounted	1,875,634	587,499
Others	2,462,357	278,914
Gross loans and receivables	149,079,761	56,026,575
Other debt instruments	4,736,528	4,058,597
Total loans and receivables	153,816,289	60,085,172
Less: Allowances for impairment	(1,814,056)	(806,964)
Net loans and receivables	152,002,233	59,278,208

	2007 AED 000	2006 AED 000
Total of classified advances on which interest is not taken into income amounted to	1,594,761	715,597

Included in loans and receivables are other debt instruments of AED 810 million (2006 – AED nil) that have been pledged under the repurchase agreement [see note 18].

(b) By segment

	2007 AED 000	2006 AED 000
Corporate	128,682,378	46,358,411
Retail	18,309,588	8,861,200
Treasury	5,010,267	4,058,597
	152,002,233	59,278,208

5 LOANS AND RECEIVABLES (continued)

	2007 AED 000	2006 AED 000
Movement in allowances for impairment		
Balance as at 1 January	806,964	673,750
Increase on acquisition of NBD	428,203	-
Allowances for impairment made during the year	649,630	198,481
Recoveries made during the year	(49,622)	(57,493)
Amounts written off during the year	(21,119)	(10,706)
Transfer from Islamic financing and investment products	-	2,932
Balance as at 31 December	1,814,056	806,964

Analysis of net (impairment allowances)/recoveries

The charge to the Group consolidated income statement for net impairment allowances/recoveries is made up as follows:

	2007 AED 000	2006 AED 000
Net impairment of loans and receivables	(600,008)	(140,988)
Net impairment of Islamic financing and investing products [refer note 6]	(63,635)	(47,123)
Net impairment of investments	(3,392)	-
Net special asset recoveries	49,380	21,524
Net impairment allowances	(617,655)	(166,587)

6 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2007 AED 000	2006 AED 000
Murabaha	5,403,504	3,443,411
Ijara	4,137,925	1,753,197
Credit cards receivable	292,089	185,192
Wakala	3,576,688	505,870
Istissna'a	739,659	259,279
Others	1,025,214	881,438
Total Islamic financing and investment products	15,175,079	7,028,387
Less: Deferred income	(545,594)	(375,964)
Less: Allowances for impairment	(157,748)	(94,113)
Net Islamic financing and investment products	14,471,737	6,558,310

	2007 AED 000	2006 AED 000
<u>Movement in allowances for impairment</u>		
Balance as at 1 January	94,113	49,922
Impairment allowances made during the year [refer note 5]	73,728	47,123
Recoveries made during the year	(10,093)	-
Transfer to loans and receivables during the year	-	(2,932)
Balance as at 31 December	157,748	94,113

7 TRADING SECURITIES

	2007 AED 000	2006 AED 000
Equities	1,107,658	508,072
Hybrid instruments	530,505	1,156,995
Others (including mutual funds)	3,781,677	1,497,697
	5,419,840	3,162,764

8 INVESTMENT SECURITIES

	2007 AED 000	2006 AED 000
HELD TO MATURITY:		
Government bonds	235,235	198,672
Corporate bonds	799,327	677,439
	1,034,562	876,111
AVAILABLE-FOR-SALE:		
Government bonds	6,551,446	1,095,848
Corporate Bonds	7,432,977	2,476,039
Equities	1,538,873	868,300
Others (including mutual funds)	1,504,191	230,262
	17,027,487	4,670,449
FAIR VALUE THROUGH PROFIT AND LOSS:		
Designated by Group as fair value through profit and loss	67,553	61,942
Total investment securities	18,129,602	5,608,502

Included in available-for-sale are investments of AED 4,800 million (2006 – AED 355 million) that have been pledged under the repurchase agreement [see note 18].

The Group, through its agent, enters into transactions to lend securities from its portfolio on a fully collateralised basis. The borrowers are required to return the instruments at an agreed future date and to deposit the collateral with the agent. The securities are not derecognised. The fair value of securities lent as at the year end was AED 2,704,892 thousand (2006: AED nil).

9 INVESTMENT IN ASSOCIATES AND JOINT VENTURE

	2007 AED 000	2006 AED 000
Investment in associates	2,694,289	2,296,707
Investment in joint venture	18,083	-
Total	2,712,372	2,296,707

Movement in investments in associates:

Movements in the carrying values of investments in associate during the year are as follows:

	2007 AED 000	2006 AED 000
Balance as at 1 January	2,296,707	1,980,239
Increase on acquisition of NBD	21,753	-
Share of profits	375,829	300,461
Rights issue	-	17,320
Sale of investments	-	(773)
Other adjustments including dividends	-	(540)
Balance as at 31 December	2,694,289	2,296,707

Other details of the associates are as follows:

	Equity holding		Assets		Liabilities		Revenues		Profit	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
			AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Union Properties	49.07%	48.9%	11,098,314	7,550,233	5,873,502	2,997,177	2,921,858	2,525,039	684,431	613,968
National General Insurance Company	36.7%	36.7%	526,373	362,412	206,985	152,784	111,216	1,854	109,110	237

9 INVESTMENT IN ASSOCIATES AND JOINT VENTURES (continued)

Movement in investment in joint venture:

Movements in the carrying values of investment in joint venture during the year is as follows:

	2007 AED 000
Increase on acquisition of NBD	18,363
Share of loss of investment in joint venture	(280)
Balance as at 31 December	18,083

The following table illustrates summarised information of the investment in Menafactors Limited:

	2007 AED 000
Share of joint venture's balance sheet:	
Current assets	2,709
Non-current assets	18,400
Current liabilities	(3,026)
Non-current liabilities	-
	18,083

10 INVESTMENT PROPERTIES

The movement on investment properties during the year is as follows:

	2007 AED 000	2006 AED 000
Balance as at 1 January	269,025	128,729
Increase on acquisition of NBD	220,000	-
Additions	369,553	241,353
Sale of investment properties	(24,367)	(98,549)
Depreciation	(7,306)	(2,508)
Balance as at 31 December	826,905	269,025

	2007 AED 000	2006 AED 000
Investment properties at 31 December consist of:		
Freehold land and buildings	826,905	269,025

<u>Islamic Bank:</u>

The fair value of the Group's investment properties as at 31 December 2007 is AED 648.6 million (2006 – AED 296.7 million) as per valuations conducted by independent valuers and the Group's real estate division.

<u>Others:</u>

The fair value of freehold land which was acquired on business combination is AED 220 million as per valuation conducted by independent valuers.

11 PROPERTY AND EQUIPMENT

	Freehold land and property	Leasehold premises	Others	Fixed assets not commissioned	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
As at 1 January 2007	198,876	90,067	343,701	129,399	762,043
Additions	652	13,265	96,311	341,000	451,228
Assets acquired on business combination	719,556	26,912	107,499	10,351	864,318
Transfers	-	27,314	26,782	(54,096)	-
Disposals	(1,042)	(1,213)	(21,157)	-	(23,412)
As at 31 December 2007	918,042	156,345	553,136	426,654	2,054,177
ACCUMULATED DEPRECIATION					
As at 1 January 2007	65,037	37,164	221,463	-	323,664
Charge for year	7,911	26,462	79,882	-	114,255
Disposals	(1,042)	(298)	(20,656)	-	(21,996)
As at 31 December 2007	71,906	63,328	280,689	-	415,923
Net Book Value as at 31 December 2007	846,136	93,017	272,447	426,654	1,638,254

11 PROPERTY AND EQUIPMENT (continued)

	Freehold land and property	Leasehold premises	Others	Fixed assets not commissioned	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
COST					
As at 1 January 2006	139,715	65,223	271,174	42,251	518,363
Additions	59,498	29,751	93,510	131,505	314,264
Transfers	-	-	-	(44,357)	(44,357)
Disposals	(337)	(4,907)	(20,983)	-	(26,227)
As at 31 December 2006	198,876	90,067	343,701	129,399	762,043
ACCUMULATED DEPRECIATION					
As at 1 January 2006	61,769	26,466	187,243	-	275,478
Charge for year	3,608	15,334	51,998	-	70,940
Disposals	(340)	(4,636)	(17,778)	-	(22,754)
As at 31 December 2006	65,037	37,164	221,463	-	323,664
Net Book Value as at 31 December 2006	133,839	52,903	122,238	129,399	438,379

12 BUSINESS COMBINATIONS

As stated in Note 1 ENBD was incorporated in the United Arab Emirates on 16 July 2007, under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended) as a Public Joint Stock Company. The Company was created to effect the merger between EBI and NBD. Emirates NBD acquired the share capital of EBI and NBD in exchange for the new shares in Emirates NBD with the following exchange ratio:

- 1 share in EBI for 1 new share in Emirates NBD.
- 1 share in NBD for 0.95 new share in Emirates NBD.

The merger was completed on 16 October 2007 with 99.11% and 97.63% shareholders of EBI and NBD respectively exchanging their shareholding in respective banks with new shares issued by Emirates NBD. Subsequently, on the same date, both EBI and NBD's shares were delisted for trading from the Dubai Financial Market ("DFM") and Emirates NBD's share was listed on the DFM.

Emirates NBD subsequently received requisite approval from Emirates Securities & Commodities Authority ("ESCA") to automatically exchange the shares of EBI and NBD for new shares of Emirates NBD for the remaining shareholders whose acceptance could not be obtained due to lack of response. As at 31 December 2007, EBI and NBD became wholly owned subsidiaries of Emirates NBD.

Under IFRS 3 - Business Combinations, EBI has been identified as the "deemed acquirer" for the purposes of accounting under the purchase accounting method.

12 BUSINESS COMBINATIONS (continued)

The provisional fair values of the identifiable assets and liabilities of NBD acquired by the Group are as follows:

	Fair value recognised on acquisition	Carrying value
Assets:	AED 000	AED 000
Cash and balances with Central Bank	7,652,229	7,652,229
Due from banks	5,660,775	5,660,775
Securities	18,097,473	18,097,473
Loans and advances	57,842,834	57,485,231
Investment properties	220,000	157,136
Fixed assets	864,318	364,752
Other assets	1,396,275	1,396,274
Total assets acquired	91,733,904	90,813,870
Liabilities:		
Due to banks	11,630,074	11,630,074
Customer deposits	61,288,982	61,262,683
Debt issued and other borrowed funds	10,087,276	10,145,912
Other Liabilities	1,081,628	1,081,628
Total liabilities acquired	84,087,960	84,120,297
Fair value of net assets acquired by the Group:	7,645,944	
Goodwill and intangibles arising on acquisition	6,161,628	
Total acquisition cost	13,807,572	

The total acquisition cost of AED 13,807 million comprised of 1,478,328,250 shares issued by ENBD amounting to AED 13,748 million and costs of AED 59 million directly attributable to the acquisition.

12 BUSINESS COMBINATIONS (continued)

The acquisition cost has been calculated on the basis of EBI's closing price of AED 9.30 per share on the Dubai Financial Market on 7 October 2007, being the last traded day prior to the suspension from trading.

Cash inflow on acquisition:

	AED 000
Values of shares issued on acquisition	13,748,452
Acquisition costs	59,120
Net assets acquired on business combination (excluding cash)	(6,155,343)
Net cash inflow	7,652,229

From the date of acquisition, NBD has contributed a profit of AED 481.9 million to the Group. An amount of AED 1,597.1 million would have been included in the profits of the Group financial statements had NBD been acquired on 1 January 2007.

The Group has provisionally recognized the fair value of assets, liabilities, and contingent liabilities, acquired through the acquisition of NBD and has not performed an impairment test on goodwill. The goodwill is attributable to the synergies expected to arise from the business combination. The intangible is attributable mainly to brands/trademarks and core deposit intangible ("CDI").

Adjustment to the provisional values and intangibles acquired will be finalized within 12 months of the acquisition date and recorded retrospectively as allowed by IFRS 3 Business Combination. An impairment test on the carrying value and intangibles acquired of the goodwill will also be performed at that stage.

Other acquisitions

In addition to the acquisition of NBD, the group has also acquired the following:

(i) Acquisition of Egyptian Company for Electronic Systems Development ("NPC")

On 1 January 2007 the Group acquired 100% of Egyptian Company for Electronic Systems Development ("NPC").

(ii) Acquisition of AbAcAs

During 2007, the Group was in the process of entering into a joint venture agreement with NSM Capital Management LLC ("NSM"), for the administrating of AbAcAs Investments Limited ("AbAcAs"), a SIV registered in the Cayman Islands. The joint venture resulted in the setting up of a 50:50 joint venture company, EBI/NSM Advisors Limited, which has a management agreement with AbAcAs. Subsequently, on 1 August 2007 the Group acquired the entire outstanding capital notes of AbAcAs.

12 BUSINESS COMBINATIONS (continued)

(iii) Emirates Loyalty Company LLC (ELCO)

During the year 2006, the group acquired 100% of Emirates Loyalty Company LLC ("ELCO"), previously a 40% associate indirectly held through a 100% subsidiary, Network International LLC, with effect from 01 January 2006.

The Group has adopted the fair value method of accounting in respect of these acquisitions as permitted by IFRS 3 – Business combinations.

The details of net assets acquired and goodwill for other acquisitions are as follows:

	2007	2006
	Total AED 000	Total AED 000
Purchase consideration	303,326	11,508
Net (assets)/liabilities acquired	(276,593)	2,676
Goodwill/intangibles	26,733	14,184
Intangibles	-	(9,281)
Goodwill	26,733	4,903

The cash outflow on the acquisition of the subsidiaries during 2007 is as follows:

	Total AED 000
Purchase consideration	303,326
Cash and cash equivalents acquired	(185,014)
Net cash outflow	118,312

From the date of the above acquisitions, the subsidiaries contributed an amount of AED 8.7 million to the Group's profit. These profits are included in the Group's consolidated financial statements.

An amount of AED 7.1 million would have been included in the profits of the group financial statements had the subsidiaries been acquired on 1 January, 2007.

13 GOODWILL AND INTANGIBLE ASSETS

	2007 AED 000	2006 AED 000
Cost:		
Balance as at 1 January	14,184	-
Acquisition of NBD [see note 12]	6,161,628	-
Other acquisitions	26,733	14,184
Balance as at 31 December	6,202,545	14,184
Amortisation and Impairment:		
Balance as at 1 January	-	-
Amortisation and impairment for the period	23,918	-
Balance as at 31 December	23,918	14,184
Carrying amounts:		
Balance as at 31 December	6,178,627	14,184

Goodwill impairment

The Group has assessed the future expected cash flows of ELCO and has concluded that it will be unable for the business to show positive cash flows without the infusion of fresh capital. Since IAS 36 states that the existence of goodwill should not include future restructurings, the goodwill of AED 4.9 million does not pass the goodwill impairment test as laid out in IAS 36.

Due to this, the Group has made an impairment of goodwill for AED 4.9 million in its income statement.

Intangibles:

Acquired intangible assets are recognised at their “fair value”. “Fair value” is defined as ‘the amount for which an asset could be exchanged, between knowledgeable, willing parties in an arm’s length transaction’.

13 GOODWILL AND INTANGIBLE ASSETS (continued)

The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets are amortised using the straight-line method over the useful life of the asset which is estimated to be between 2 and 5 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount.

14 OTHER ASSETS

	2007 AED 000	2006 AED 000
Accrued interest receivable	1,602,943	971,939
Properties and shares acquired in settlement of loans and receivables	-	50,103
Cheques awaiting clearance	523,726	-
Prepayments and other advances	541,609	96,107
Sundry debtors and other receivables	618,462	4,226
Others	511,425	473,833
	3,798,165	1,596,208

15 CUSTOMER DEPOSITS

	2007 AED 000	2006 AED 000
Demand, call and short notice	36,873,611	10,417,901
Time	79,919,799	28,118,030
Savings	4,793,254	1,972,894
Others	2,517,761	378,227
	124,104,425	40,887,052

Deposits from Government and public sector entities account for 9.5% p.a. in 2007 (2006 – 15.1% p.a.) of total deposits.

The interest rates paid on the above deposits averaged 3.3% p.a. (2006 – 3.5% p.a.).

16 ISLAMIC CUSTOMER DEPOSITS

	2007 AED 000	2006 AED 000
Demand, call and short notice	3,008,053	1,923,934
Time	10,029,961	6,079,246
Savings	1,335,261	955,044
Others	168,695	87,150
	14,541,970	9,045,374

17 DUE TO BANKS

	2007 AED 000	2006 AED 000
Demand and call deposits	4,044,247	188,366
Balances with correspondent banks	1,826,108	502,460
Time and other deposits	40,457,702	19,284,450
	46,328,057	19,975,276

The interest rates paid on the above averaged 4.3% p.a. (2006 – 4.4% p.a.).

18 REPURCHASE AGREEMENT WITH BANKS

Deposits under repurchase agreement represent borrowings from bank and are secured by a portfolio of investment securities as follows:

	2007 AED 000	2006 AED 000
Available-for-sale investment securities	4,799,795	355,087
Loans and receivables	810,248	-
	5,610,043	355,087

These borrowings will be repaid in 2008.

19 DEBT ISSUED AND OTHER BORROWED FUNDS

	2007 AED 000	2006 AED 000
Euro commercial paper	2,255,909	-
Euro medium-term note programme	19,896,821	11,238,270
Syndicated borrowings from banks	5,509,500	844,790
	27,662,230	12,083,060

The Group has outstanding medium and short-term borrowings totalling AED 27,662 million (2006 – AED 12,083 million) which will be repaid as follows:

	2007 AED million	2006 AED million
2007	-	1,345
2008	2,951	705
2009	4,075	2,755
2010	5,906	2,828
2011	4,821	2,704
2012	7,849	-
2014	247	-
2016	1,813	1,746
	27,662	12,083

19 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

Included in the above are:

(a) Short-term borrowings

Under the Euro-commercial paper programme of one billion US Dollars, the Group has borrowed short term funds up to one year. The effective interest rate as at 31 December 2007 is 4.8% p.a.

(b) Medium-term borrowings

1. USD 750 million floating rate notes maturing on 5 December 2010. The effective interest rate as at 31 December 2007 is 5.50% p.a. (2006 - 5.70 % p.a.).

2. USD 500 million of subordinated debt which qualifies for treatment as Tier II Capital. The notes are callable by the Group on 30 October 2011 and mature on 30 October 2016. The effective interest rate as at 31 December 2007 is 5.25% p.a. (as at 31 December 2006 is 6.08% p.a.).

3. USD 500 million senior notes maturing on 30 January 2012. The effective interest rate as at 31 December 2007 is 5.66% p.a.

4. Subordinated floating rate notes (due in 2016) amounting to USD 500 million under the Euro Medium Term Note programme. This issue is treated as Tier II (supplementary) capital as set out in circular 13/93 relating to capital adequacy published on 14 April 1993 by the Central Bank of the United Arab Emirates.

The interest rate paid on the above averaged 5.61% p.a. in 2007 (2006 – 5.5% p.a.).

20 SUKUK PAYABLE

On 12 June 2007, Emirates Islamic Bank PJSC (“EIB”), a subsidiary of the Group, through a sharia’a compliant Sukuk financing arrangement, raised medium term finance amounting to AED 1,285 million (USD 345 million), which is listed on the London Stock Exchange. An amount of AED 18 million has been adjusted on consolidation.

The terms of the arrangement include the transfer of certain leased assets (Ijara) of EIB, on a Co-ownership basis, to a Sukuk company (EIB Sukuk Company Limited – the Issuer) specially formed for this transaction. The assets are in the control of EIB and shall be continued to be serviced by EIB. The Sukuk certificates are due for maturity on 11 June 2012.

The Issuer will pay the quarterly distribution amount from the returns received in respect of the leased assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to Sukuk holders on each quarterly distribution date. Upon maturity of this Sukuk, EIB has undertaken to repurchase the assets at the exercise price of USD 350 million.

21 OTHER LIABILITIES

	2007 AED 000	2006 AED 000
Accrued interest payable	1,214,434	658,778
Managers' cheques	655,808	286,662
Trade and other payables	446,574	91,491
Staff related liabilities	622,068	214,257
Provision for taxation [see note 33]	14,593	14,863
Others	583,998	291,581
	3,537,475	1,557,632

22 ISSUED CAPITAL

	2007 AED 000	2006 AED 000
Authorised, issued and fully paid :		
2,331,895,822 ordinary shares of AED 1 each (EBI)	-	2,331,896
4,393,498,027 ordinary shares of AED 1 each (ENBD)	4,393,498	-

Movement of ordinary shares in issue during the year is made up as follows:

	Number of shares	Share Capital AED 000	Share Premium AED 000	Total AED 000
As at 1 January 2006	717,506,408	1,793,766	-	1,793,766
Increase in share due to share split	1,076,259,612	-	-	-
Issue of bonus shares	538,129,802	538,130	-	538,130
As at 31 December 2006 (EBI)	2,331,895,822	2,331,896	-	2,331,896
Issue of bonus shares (EBI)	582,973,955	582,974	-	582,974
	2,914,869,777	2,914,870	-	2,914,870
Contribution in kind (EBI)	(2,914,869,777)	(2,914,870)	-	(2,914,870)
Issue of new shares on incorporation (ENBD)	300,000	300	-	300
Issue of new shares to EBI shareholders (ENBD)	2,914,869,777	2,914,870	-	2,914,870
Issue of new shares on acquisition of NBD (ENBD)	1,478,328,250	1,478,328	12,270,124	13,748,452
As at 31 December 2007 (ENBD)	4,393,498,027	4,393,498	12,270,124	16,663,622

22 ISSUED CAPITAL (continued)

- On 20 March 2006, the face value of each EBI share was reduced to AED 1 from AED 2.5 by virtue of a share split.
- In March 2006, 538,129,802 shares were issued by EBI pursuant to a bonus issue.
- In March 2007, 582,973,955 shares were issued by EBI pursuant to a bonus issue.
- In July 2007, ENBD was incorporated with issued and paid up share capital of 300,000 shares with a nominal value of AED 1 each.
- In October 2007, EBI shareholders exchanged its 2,914,869,777 shares with a nominal value of AED 1 each for 2,914,869,777 shares of AED 1 each in ENBD.
- In October 2007, ENBD issued 1,478,328,250 shares of AED 1 each at a value of AED 9.3 each for 1,556,135,000 shares of AED 1 each in NBD.

Treasury shares of the Group represent NBD shares held by EBI on 15 October 2007, which were swapped for ENBD shares, pursuant to share swap agreement.

The new shares of ENBD were listed on the Dubai Financial Market on 16 October 2007.

At the forthcoming Annual General Meeting which will be held in March 2008, the Group is proposing a cash dividend of AED 0.35 per share for the year (2006 – AED 0.30) amounting to AED 1,537.7 million (2006 – AED 699.6 million) and a bonus issue of fifteen ordinary shares for every hundred ordinary shares held for the approval of the equity holders.

23 RESERVES

Legal and statutory reserve:

In accordance with the Company's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non - distributable legal and statutory reserve until such time as this reserve equals 50% of the Group's issued capital. A transfer of AED 278 million (2006 – AED 190 million) has been made to the legal reserve in compliance with the provisions of the Company's Articles of Association. 10% of the profit is also transferred to a non-distributable regular reserve until such time as this reserve equals 10% of the Group's issued capital.

Other reserves:

	Regular Reserve	General Reserve	Total
	AED 000	AED 000	AED 000
At 1 January 2007	233,500	4,060,984	4,294,484
Bonus shares issued	-	(582,974)	(582,974)
Transfer from Group consolidated income statement	205,900	-	205,900
At 31 December 2007	439,400	3,478,010	3,917,410

24 CUMULATIVE CHANGES IN FAIR VALUE

	AFS Investment securities AED 000	Cash flow hedges AED 000	Total AED 000
As at 1 January 2006	684,460	(37,325)	647,135
Net unrealized gains on AFS financial investments	(279,993)	-	(279,993)
Realised gains on AFS financial investments reclassified to income statement on disposal	(25,119)	-	(25,119)
Realised losses on AFS financial investments reclassified to income statement on disposal and impairment	(3,963)	-	(3,963)
Net unrealised gains on cash flow hedges	-	5,225	5,225
As at 31 December 2006	375,385	(32,100)	343,285
Net unrealised gains on AFS financial investments	281,115	-	281,115
Realised gains on AFS financial investments reclassified to income statement on disposal	112,226	-	112,226
Realised losses on AFS financial investments reclassified to income statement on disposal and impairment	(4,283)	-	(4,283)
Net unrealized gains on cash flow hedges	-	131,547	131,547
As at 31 December 2007	764,443	99,447	863,890

25 NET INTEREST INCOME

	2007 AED 000	2006 AED 000
Interest Income		
Loans and receivables to customers	5,586,063	3,300,883
Loans and receivables to banks	904,995	368,304
Other debt securities	312,458	144,628
Available-for-sale securities	412,946	109,577
Held to maturity securities	99,622	75,932
Trading securities	58,994	35,923
Others	4,795	11,298
Total interest & income	7,379,873	4,046,545
Interest Expense		
Deposits from customers	2,610,338	1,331,853
Borrowings from banks and financial institutions	1,494,580	1,017,007
Borrowings under commercial paper	505,348	169,575
Securities lent and repurchase agreements	70,926	37,371
Others	32,873	37,640
Total interest expense	4,714,065	2,593,446
Net interest income	2,665,808	1,453,099

26 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

	2007 AED 000	2006 AED 000
Murabaha	330,551	189,719
Ijara	178,198	80,426
Istissna'a	18,130	5,010
Others	27,695	12,568
	554,574	287,723

27 DISTRIBUTION TO DEPOSITORS AND PROFIT PAID TO SUKUK HOLDERS

	2007 AED 000	2006 AED 000
Distribution to depositors	412,718	240,954
Profit paid to sukuk holders	41,984	-
Total distribution of profits	454,702	240,954

Distribution to depositors represents share of income between depositors and equity holders' due to depositors of the Group's Islamic banking subsidiary, Emirates Islamic Bank PJSC. The allocation and distribution to depositors was approved by the Islamic Bank's Fatwa and Sharia'a Supervisory Board.

Profit paid to sukuk holders represents the distribution of returns received in respect of leased assets transferred to the Sukuk company.

28 NET FEES AND COMMISSION INCOME

	2007 AED 000	2006 AED 000
Commission income [refer note below]	1,128,162	995,638
Brokerage fees	74,257	74,390
Portfolio and other management fee (for trust and other fiduciary activity)	129,605	63,598
Total fee and commission income	1,332,024	1,133,626
Fee and commission expense	(341,731)	(141,017)
Brokerage fees paid	(11,183)	-
Total fee and commission expense	(352,914)	(141,017)
Net fee and commission income	979,110	992,609

Fee and commission income includes:

	2007 AED 000	2006 AED 000
Commission on trade finance products / services	278,563	177,361
Fee income	193,582	102,756
Commission on acquiring business	299,770	176,515
Others	356,247	539,006
	1,128,162	995,638

29 NET GAIN OR LOSS ON TRADING SECURITIES

	Held for Trading	
	2007 AED 000	2006 AED 000
Realised	96,140	(24,166)
Unrealised	168,107	12,609
	264,247	(11,557)

30 OTHER OPERATING INCOME

	2007 AED 000	2006 AED 000
Dividend income	101,895	36,181
Gains from sale of available-for-sale financial investments	136,532	39,171
Loss from sale of held to maturity securities	(384)	-
Unrealised gain/loss from investment securities designated at fair value through profit and loss	1,983	2,373
Rental income	13,247	9,976
Gain on sale of properties	10,678	12,821
Interest rate instruments	24,438	(3,840)
Foreign exchange income	367,038	165,351
Other income	294,757	153,256
	950,184	415,289

31 GENERAL AND ADMINISTRATIVE EXPENSES

Charges to general and administrative expenses in respect of depreciation amounted to AED 114.2 million (2006 - AED 70.9 million).

The charge also includes staff related expenses of AED 1,219.3 million (2006 - AED 706.1 million).

During the year an amount of AED 17.2 million (2006 - AED 8.2 million) has been charged to the Group consolidated income statement in respect of the Group’s contribution to a UAE Pension and Social Security Scheme set up by the UAE Government authorities to provide retirement benefits for UAE nationals.

The number of employees of the Group at 31 December 2007 was 8,139 (2006 – 4,720).

32 DIRECTORS’ FEES

This comprises fees payable to the Directors of the Group of AED 13.75 million (2006 - AED 8.25 million). The 2007 figure includes fees payable to the Directors of subsidiaries of AED 4.75 million (2006 – AED 4.75 million).

33 TAXATION

At 31 December 2007 provisions for tax payable on overseas branch operations amount to AED 14.6 million (2006 - AED 14.9 million) [see note 21].

34 EARNINGS PER SHARE

The basic earnings per share is based on earnings of AED 2,771 million, being the profit attributable to the equity holders for the year ended 31 December 2007 (2006 - AED 1,888 million), and based on 3,221,945,108 shares calculated on a weighted average basis excluding treasury shares. The 2006 earnings per share has been adjusted to reflect the share split and bonus issue of shares made in 2007.

35 DERIVATIVES

	2007 AED 000	2006 AED 000
Notional amounts at 31 December :		
Forward foreign exchange contracts	62,430,324	13,105,350
Forward exchange options	3,820,365	3,048,411
Interest rate swaps – held for trading	49,699,300	21,404,903
Credit derivatives	8,307,286	1,166,786
Interest rate swaps – held as cash flow hedges	10,804,116	7,242,301
Interest rate swaps – held for fair value hedges	141,907	162,794
	135,203,298	46,130,545

35 DERIVATIVES (continued)

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	Negative Fair Value	Notional Amount Total	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 3 Years	Over 3 Years to 5 Years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Derivatives held for trading :								
Forward foreign exchange contracts	729,468	(700,481)	62,430,324	34,716,301	25,956,270	1,726,039	31,714	-
Foreign exchange options	42,636	(41,500)	3,820,365	1,795,086	2,025,279	-	-	-
Interest rate swaps	2,675,977	(1,895,688)	49,699,300	1,926,256	8,394,330	11,243,701	15,199,372	12,935,641
Credit derivatives	6,936	(63,480)	8,307,286	55,090	1,501,957	683,178	5,926,018	141,043
Derivatives held as cash flow hedges :								
Interest rate swaps	301,328	(43,894)	10,804,116	150,000	3,070,603	3,540,170	4,043,343	-
	3,756,345	(2,745,043)	135,061,391	38,642,733	40,948,439	17,193,088	25,200,447	13,076,684
Derivatives held for fair value hedges :								
Interest rate swaps	-	(5,790)	141,907	-	-	65,012	-	76,895
Total	3,756,345	(2,750,833)	135,203,298	38,642,733	40,948,439	17,258,100	25,200,447	13,153,579

35 DERIVATIVES (continued)

31 December 2006 Notional amounts by term to maturity

	Positive Fair Value	Negative Fair Value	Notional Amount Total	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 3 Years	Over 3 Years to 5 Years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Derivatives held for trading :								
Forward foreign exchange contracts	236,147	(238,077)	13,105,350	8,855,622	3,910,041	292,387	47,300	-
Foreign exchange options	102,622	(100,202)	3,048,411	746,034	1,634,281	668,096	-	-
Interest rate swaps	1,675,490	(1,679,330)	21,404,903	-	1,129,675	4,994,200	8,479,362	6,801,666
Credit derivatives	873	(430)	1,166,786	36,730	176,920	247,920	705,216	-
	2,015,132	(2,018,039)	38,725,450	9,638,386	6,850,917	6,202,603	9,231,878	6,801,666
Derivatives held as cash flow hedges :								
Interest rate swaps	19,086	(51,186)	7,242,301	642,775	1,156,995	2,616,526	2,752,545	73,460
Derivatives held for fair value hedges :								
Interest rate swaps	-	(6,597)	162,794	7,346	18,365	65,012	-	72,071
	2,034,218	(2,075,822)	46,130,545	10,288,507	8,026,277	8,884,141	11,984,423	6,947,197

Derivative product types

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

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

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

35 DERIVATIVES (continued)

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. Approximately 60% of the Group's derivative contracts are entered into with other financial institutions. The majority of the fair value of favourable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and balance sheet hedging. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

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

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

The Group also uses interest rate swaps to hedge against changes in fair value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

36 EMPLOYEES' LONG TERM INCENTIVE SCHEME

On 01 April 2006, EBI had introduced two Long Term Incentive Plans for selected key employees. These are cash settled share based incentive plans wherein participants are awarded with Long Term Incentive (LTI) units which will be converted into cash after vesting. A second tranche of new LTI units were issued for key employees on 01 April 2007.

(i) Key employee long term incentive plan (LTIP)
This plan is applicable for selected key employees of EBI and the LTI units will vest over a period of three years from date of grant. Subject to continued employment with EBI, 30% of the LTI units can be cashed after two years and the remaining 70% after three years up to the fifth anniversary from the date of grant.

(ii) Executive long term incentive plan (ELTIP)
This plan is applicable for selected senior executives of EBI who are granted LTI units and performance units. Subject to continued employment with EBI, the LTI units will vest at the end of three years from date of grant. Performance units will vest based on the pre-defined performance of EBI during the three year period and will range from 50% to 150% of the units granted. LTI units and performance units can be cashed within a period of two years from the vesting date.

IFRS 2 "Share Based Payment" is applied in accounting for the LTI units granted. The expense of these plans is measured based on the fair value of the equity shares, its term, the risk free interest rate and the expected number of employees who will exercise the option rights using the Black Scholes pricing model. The fair valuation of the plan is carried out at each reporting date and is expensed on a straight line basis over the vesting period.

The fair value charge for the year ended 31 December 2007 was AED 31.1 million (2006- AED 5.7 million) for LTIP and AED 6.4 million (2006 -AED 1.5 million) for ELTIP.

The movement in number of LTI units granted during the year is as below:

	LTIP	ELTIP
LTI outstanding as at 1 January 2007	1,408,399	441,210
LTI units granted during the year	4,595,980	897,921
LTI units forfeited/lapsed during the year	(185,451)	(42,020)
LTI units outstanding as at 31 December 2007	5,818,928	1,297,111

37 BUSINESS SEGMENT REPORTING

The Group is organised into the following main business segments:

(a) Government, Corporate and Commercial banking which incorporates structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for Government, corporate and commercial customers.

(b) Retail banking which incorporates current and savings accounts, customer deposits, overdrafts, personal and installment credit loans, foreign currency and trade finance related facilities.

(c) Investment and funds management which involves managing the Group's portfolio of investments, funds management, and inter bank treasury operations.

(d) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiary.

(e) Other operations of the Group comprise property development and management, insurance services, credit card facilities and other banking related services, none of which constitutes a separately reportable segment.

The distinctions between corporate and commercial banking and retail banking segments are primarily based on monetary threshold limits determined by management.

These figures represent streams of income and expenses directly attributable to the business segment assets and liabilities. They do not reflect inter sector borrowings or placements and accordingly does not reflect the profitability of the business segment.

31 December 2007	Government, Corporate & Commercial AED 000	Retail AED 000	Investment & Funds Management AED 000	Islamic Banking Activities AED 000	Other AED 000	Total AED 000
Net interest income & Income from Islamic products net of distribution to depositors	1,146,039	1,072,252	227,074	320,315	-	2,765,680
Net fees, commission and other income	963,950	363,563	629,206	236,822	-	2,193,541
Total Income	2,109,989	1,435,815	856,280	557,137	-	4,959,221
General and administrative expenses						(1,927,192)
Impairment allowance on loans and receivables						(617,655)
Amortisation of intangible assets						(19,015)
Share of profit of associates and joint ventures						375,549
Profit for the year						2,770,908
Segment Assets	146,946,557	30,863,525	45,135,842	19,459,338	11,406,990	253,812,252
Segment Liabilities	98,864,792	40,858,764	93,190,972	16,707,056	4,190,668	253,812,252

Included in segment liabilities are equity holders' funds which have been allocated to the different segments based on the relative size of the segment assets.

37 BUSINESS SEGMENT REPORTING (continued)

	Government, Corporate & Commercial AED 000	Retail AED 000	Investment & Funds Management AED 000	Islamic Banking Activities AED 000	Other AED 000	Total AED 000
31 December 2006						
Net interest income & Income from Islamic products net of distribution to depositors	678,576	627,499	111,429	82,364	-	1,499,868
Net fees, commission and other income	832,428	163,823	204,243	195,847	-	1,396,341
Total Income	1,511,004	791,322	315,672	278,211	-	2,896,209
General and administrative expenses						(1,141,791)
Impairment allowance on loans and receivables						(166,587)
Share of profit of associates and joint ventures						300,461
Profit for the year						1,888,292
Segment Assets	50,285,199	11,217,043	22,326,556	9,290,642	2,758,701	95,878,141
Segment Liabilities	28,741,144	12,676,098	41,549,249	10,472,716	2,438,934	95,878,141

Included in segment liabilities are equity holders' funds which have been allocated to the different segments based on the relative size of the segment assets.

38 SUBSIDIARIES AND ASSOCIATE COMPANIES

The principal subsidiaries of ENBD are as follows:-

As at 31 December 2007

	% Share-holding	Nature of business	Country of incorporation
Emirates Bank International PJSC	100	Banking	Dubai, U.A.E.
National Bank of Dubai PJSC	100	Banking	Dubai, U.A.E.
Subsidiaries of Emirates Bank International PJSC:			
Buzz Contact Centre Solutions LLC	100	Call centre management services	Dubai, U.A.E.
Diners Club (UAE) LLC	100	International charge card	Dubai, U.A.E.
ETFS LLC	100	Trade finance services	Dubai, U.A.E.
Emirates Financial Services PSC	100	Funds management	Dubai, U.A.E.
Emirates Funds Managers (Jersey) Limited	100	Asset management	Jersey, U.K.
Emirates International Securities LLC	100	Brokerage services	Dubai, U.A.E.
Emirates Loyalty Company LLC	100	Customer loyalty smart card services	Dubai, U.A.E.
Network International LLC	100	Card services	Dubai, U.A.E.
Emirates Investment Services Limited	100	Asset management	Dubai, U.A.E.
Emirates Islamic Bank PJSC	99.8	Islamic banking	Dubai, U.A.E.
Heritage Insurance Brokers LLC	99	Insurance brokerage	Dubai, U.A.E.
Dubai Bank Limited	97	Banking	Dubai, U.A.E.
Associate companies of Emirates Bank International PJSC:			
Union Properties PJSC	49.07	Real estate	Dubai, U.A.E.
National General Insurance Company PSC	36.7	General and life insurance	Dubai, U.A.E.
Subsidiaries of National Bank of Dubai PJSC:			
NBD Investment Bank Limited	100	Investment Banking	Dubai, U.A.E.
National Bank of Dubai Trust Company (Jersey) Limited	100	Trust administration services	Jersey, U.K.
NBD Securities LLC (formerly National Financial Services LLC)	99.99	Brokerage services	Dubai, U.A.E.
NBD Properties LLC (formerly Aqarat LLC)	99.99	Real estate	Dubai, U.A.E.
Al Watani Al Islami PJSC	99.99	Islamic financing	Dubai, U.A.E.
Joint venture of National Bank of Dubai PJSC:			
Menafactors Limited	50	Factoring and forfeiting services	Dubai, U.A.E.

39 COMMITMENTS AND CONTINGENCIES

(a) At 31 December the Group's contingent liabilities are as follows:

	2007 AED 000	2006 AED 000
Letters of credit	19,405,990	9,041,073
Guarantees	34,064,323	14,479,492
Liability on risk participation	2,724,475	1,699,795
	56,194,788	25,220,360

(b) Acceptances

Under IAS 39 (revised), acceptances are recognised on balance sheet with a corresponding liability. Accordingly there is no off balance sheet commitment for acceptances.

(c) Irrevocable loan commitments

The Group has irrevocable undrawn loan commitments outstanding at 31 December 2007 of AED 31,847.3 million (2006 - AED 6,872.1 million).

(d) Capital commitments

The Group has commitments for branch refurbishments and automation projects of AED 677.8 million (2006 - AED 1,774.6 million) and the Group’s share of associate company commitments for property developments amounts to AED 3,095.8 million (2006 - AED 1,416 million).

(e) The Group has a number of pending tax cases in Cairo and management is currently discussing settlements with the tax authorities.

40 RELATED PARTY TRANSACTIONS

Banking transactions are carried out with certain related parties. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

	2007 AED 000	2006 AED 000
Loans to majority shareholder	27,571,295	13,215,286
Deposits from majority shareholder	2,428,970	98,087
Investment in Government of Dubai bonds	176,802	74,088
Loans to directors and related companies	3,673,061	506,588
Payments made to associates	32,769	29,057
Loans to associates	3,196,065	1,434,550
Loans to and investments in funds managed by the Group	938,241	170,906
Fees received in respect of funds managed by the Group	72,321	35,487
Interest paid to funds managed by the Group	-	3,639

The total amount of compensation paid to directors and key management personnel during the year is as follows :

	2007 AED 000	2006 AED 000
Short term and post employment benefits	46,806	30,269

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

41 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into amount any collateral held or other credit enhancement can be analysed by the following regions:

31 December 2007 :

	GCC AED 000	International AED 000	Total AED 000
ASSETS			
Cash and deposits with Central Banks	28,806,384	419,670	29,226,054
Due from banks	4,425,196	8,375,706	12,800,902
Loans and receivables	139,554,583	12,447,650	152,002,233
Islamic financing and investment products	13,700,391	771,346	14,471,737
Trading securities	2,225,012	3,194,828	5,419,840
Investment securities	4,059,466	14,070,136	18,129,602
Investment in associates and joint ventures	2,712,372	-	2,712,372
Investment properties	826,905	-	826,905
Property and equipment	1,636,475	1,779	1,638,254
Goodwill and intangible assets	6,178,627	-	6,178,627
Positive fair value of derivatives	3,756,345	-	3,756,345
Customer acceptances	2,851,216	-	2,851,216
Other assets	3,685,927	112,238	3,798,165
TOTAL ASSETS	214,418,899	39,393,353	253,812,252
LIABILITIES			
Customer deposits	112,791,259	11,313,166	124,104,425
Islamic customer deposits	14,541,962	8	14,541,970
Due to banks	14,090,125	32,237,932	46,328,057
Deposits under repurchase agreement	-	5,610,043	5,610,043
Debt issued and other borrowed funds	-	27,662,230	27,662,230
Sukuk payable	1,267,185	-	1,267,185
Negative fair value of derivatives	2,750,833	-	2,750,833
Customer acceptances	2,834,893	16,323	2,851,216
Other liabilities	3,497,740	39,735	3,537,475
Shareholders' funds	25,158,818	-	25,158,818
Total Liabilities and Equity Holders' Funds	176,932,815	76,879,437	253,812,252
Geographical distribution of Off Balance Sheet items			
Letters of credit and guarantees	48,365,633	5,104,680	53,470,313

31 December 2006 :

	GCC AED 000	International AED 000	Total AED 000
Geographical distribution of Assets	81,272,363	14,605,778	95,878,141
Geographical distribution of Liabilities and Equity Holders' Funds	68,184,039	27,694,102	95,878,141
Geographical distribution of Letters of Credit and Guarantees	22,481,736	1,038,829	23,520,565

42 FINANCIAL ASSETS & LIABILITIES

Accounting classifications and fair values:

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest).

As At 31 December 2007:

	Designated as fair value through profit and loss AED 000	Held to maturity AED 000	Available for sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised gain and loss AED 000
Financial assets										
Due from banks	-	-	-	-	12,800,902	-	-	12,800,902	12,800,675	(227)
Loans and receivable	-	-	-	152,002,233	-	-	-	152,002,233	152,612,718	610,485
Islamic financing and investments	-	-	-	14,471,737	-	-	-	14,471,737	14,471,737	-
Trading securities	5,419,840	-	-	-	-	-	-	5,419,840	5,419,840	-
Investment securities	67,553	1,034,562	17,027,487	-	-	-	-	18,129,602	18,129,766	164
Investment in associates and joint ventures	-	-	-	-	-	-	2,712,372	2,712,372	7,321,582	4,609,210
Positive fair value of derivatives	3,455,017	-	-	-	-	301,328	-	3,756,345	3,756,345	-
	8,942,410	1,034,562	17,027,487	166,473,970	12,800,902	301,328	2,712,372	209,293,031	214,512,663	5,219,632
Financial liabilities										
Customer deposits	-	-	-	-	124,104,425	-	-	124,104,425	123,225,696	878,729
Islamic customer deposits	-	-	-	-	14,541,970	-	-	14,541,970	14,541,970	-
Due to banks	-	-	-	-	46,328,057	-	-	46,328,057	46,317,788	10,269
Repurchase agreements with banks	-	-	-	-	5,610,043	-	-	5,610,043	5,610,043	-
Debt issued and other borrowed funds	-	-	-	-	27,662,230	-	-	27,662,230	27,662,230	-
Sukuk payable	-	-	-	-	1,267,185	-	-	1,267,185	1,267,185	-
Negative fair value of derivatives	2,701,149	-	-	-	-	49,684	-	2,750,833	2,750,833	-
	2,701,149	-	-	-	219,513,910	49,684	-	222,264,743	221,375,745	888,998

42 FINANCIAL ASSETS & LIABILITIES (continued)

As At 31 December 2006:

	Designated as fair value through profit and loss AED 000	Held to maturity AED 000	Available for sale AED 000	Loans and receivables AED 000	Amortised cost AED 000	Hedging instruments AED 000	Others AED 000	Total carrying value AED 000	Fair value AED 000	Unrecognised gain and loss AED 000
Financial assets										
Due from banks	-	-	-	-	6,822,405	-	-	6,822,405	6,825,350	2,945
Loans and receivable	-	-	-	59,278,208	-	-	-	59,278,208	59,267,209	(10,999)
Islamic financing and investments	-	-	-	6,558,310	-	-	-	6,558,310	6,558,310	-
Trading securities	3,162,764	-	-	-	-	-	-	3,162,764	3,162,764	-
Investment securities	61,942	876,111	4,670,449	-	-	-	-	5,608,502	5,607,895	(607)
Investment in associates and joint ventures	-	-	-	-	-	-	2,296,707	2,296,707	3,559,295	1,262,588
Positive fair value of derivatives	2,015,132	-	-	-	-	19,086	-	2,034,218	2,034,218	-
	5,239,838	876,111	4,670,449	65,836,518	6,822,405	19,086	2,296,707	85,761,114	87,015,041	1,253,927
Financial liabilities										
Customer deposits	-	-	-	-	40,887,052	-	-	40,887,052	40,887,052	-
Islamic customer deposits	-	-	-	-	9,045,374	-	-	9,045,374	9,045,374	-
Due to banks	-	-	-	-	19,975,276	-	-	19,975,276	19,981,077	(5,801)
Repurchase agreements with banks	-	-	-	-	355,087	-	-	355,087	355,087	-
Debt issued and other borrowed funds	-	-	-	-	12,083,060	-	-	12,083,060	12,083,060	-
Sukuk payable	-	-	-	-	-	-	-	-	-	-
Negative fair value of derivatives	2,018,039	-	-	-	-	57,783	-	2,075,822	2,075,822	-
	2,018,039	-	-	-	82,345,849	57,783	-	84,421,671	84,427,472	(5,801)

42 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities

(a) Due from banks

Due from banks includes overnight, call and short notice accounts and time loans having a maturity of up to five years. The deposits and loans are being repriced daily, monthly, quarterly and six monthly depending on the tenure of the placements using the prevailing market rates at the repricing date. The deposits and loans are all expected to be realised on maturity.

(b) Loans and receivables

Loans and receivables are net of impairment allowances.

A significant portion of the Group's loans and receivables portfolio comprises lending to corporate customers. These facilities are given at a variable rate determined, generally, with reference to the cost of funds and market rates besides the usual parameters of tenor and risk evaluation.

The balance of the loans and receivables portfolio comprises personal loans. The average interest rate on these loans at the year-end is in line with the rate charged for such lending in the local banking market.

(c) Islamic financing and investment products

Fees levied are comparable to those prevailing in the market for similar products. There has been no significant change in the fees levied on these products at the year ended 31 December 2007.

(d) Investment securities

Investments are classified as available-for-sale, held to maturity or fair value through the profit and loss account. The fair value of investments is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the investment is estimated using pricing models or discounted cash flow techniques. Held to maturity investments are net of impairment allowances.

(e) Investment in associate companies and joint ventures

The Group's investment in its associate companies and joint venture is accounted for on an equity accounting basis [see note 2 (a)] which amount to AED 2,712.3 million at 31 December 2007 (AED 2,296.7 million at 31 December 2006). The fair value of the investments in the associate companies, which are public quoted companies on the Dubai Financial Markets, amounts to AED 7,321.5 million at 31 December 2007 (AED 3,559.3 million at 31 December 2006).

42 FINANCIAL ASSETS AND LIABILITIES (continued)

Fair value of financial assets and liabilities

(f) Customer deposits

Customer deposits comprise a significant amount of fixed deposits with an original maturity, generally, of one to three months. These deposits are repayable on maturity. A significant portion of these deposits has been maintained with the Group for a number of years on a roll over basis. For customer deposits maturing after three months of the year end date, a fair value has been arrived at by applying appropriate interest rates prevailing at the year end to these balances.

The balance of the customer deposits, primarily comprising interest bearing savings, call and fixed deposit accounts and non-interest bearing current accounts, is repayable on demand.

(g) Islamic customer deposits

Islamic customer deposits receive a share of the profits of the Islamic Bank which has been approved by the Sharia'a Committee at the year end.

(h) Due to banks

Due to banks includes short-term borrowings with an original maturity, generally, of less than three months and non-interest bearing deposits. The short-term borrowings are repayable on maturity. The non-interest bearing deposits are repayable on demand. For borrowings maturing after three months of the balance sheet date, the fair value has been arrived at by applying the prevailing market interest rates to these deposits.

(i) Repurchase agreement with banks

These deposits are repriced on a quarterly basis and thus the carrying value is comparable to the fair value of the deposit.

(j) Medium-term borrowing

These borrowings have repayment periods of up to three years and the loans were taken at a variable rate determined, generally, with reference to ninety-day LIBOR rate.

43 NOTE TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

		2007 AED 000	2006 AED 000
(a)	Analysis of changes in cash and cash equivalents during the year		
	Balance at beginning of year	(5,293,055)	(1,353,366)
	Net cash outflow	(4,253,595)	(3,939,689)
	Balance at end of year	(9,546,650)	(5,293,055)
(b)	Analysis of cash and cash equivalents		
	Cash and deposits with Central Banks	29,226,054	6,778,440
	Due from banks	12,800,902	6,822,405
	Due to banks	(46,328,057)	(19,975,276)
		(4,301,101)	(6,374,431)
	Less : deposits with Central Banks for regulatory purposes	(6,599,449)	(2,125,450)
	Less : amounts due from banks maturing after 3 months	(2,378,318)	(1,113,710)
	Add : amounts due to banks maturing after 3 months	3,732,218	4,320,536
		(9,546,650)	(5,293,055)

44 CAPITAL MANAGEMENT AND ALLOCATION

The Central Bank of UAE, which is the regulatory authority for banks in the UAE, sets and monitors capital requirements for the group.

For implementing current capital requirements, the Central Bank of UAE requires the group to maintain a prescribed minimum ratio of total capital to total risk-weighted assets of 10%. Risk weighted assets take into account on balance sheet and off balance sheet transactions and are allocated to individual operations on that basis.

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

- Tier 1 capital includes share capital, legal, statutory & other reserves, retained earnings, 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 includes qualifying subordinated debt and cumulative changes in fair value.

The capital adequacy ratio:

	Emirates Bank International PJSC		National Bank of Dubai PJSC	
	2007 AED 000	2006 AED 000	2007 AED 000	2006 AED 000
Tier I Capital				
Issued capital	2,914,870	2,331,896	1,556,135	1,296,779
Legal and statutory reserves	1,222,205	982,205	1,556,136	1,296,780
Other reserves	3,769,510	4,294,484	2,709,760	2,450,404
Retained earnings	2,317,002	924,611	1,683,933	864,862
Minority interest	1,947	1,566	-	-
Total Tier 1 Capital	10,225,534	8,534,762	7,505,964	5,908,825
Less : Goodwill and intangible assets	(33,999)	(14,184)	-	-
Total	10,191,535	8,520,578	7,505,964	5,908,825
Tier II Capital				
Cumulative changes in fair value	592,877	343,285	(80,301)	(383,902)
Subordinated debt	1,836,500	1,836,500	1,836,250	1,836,250
Total	2,429,377	2,179,785	1,755,949	1,452,348
Total regulatory capital	12,620,912	10,700,363	9,261,913	7,361,173

44 CAPITAL MANAGEMENT AND ALLOCATION (continued)

RISK WEIGHTED EXPOSURE

	Emirates Bank International PJSC		National Bank of Dubai PJSC	
	2007 AED 000	2006 AED 000	2007 AED 000	2006 AED 000
Corporate	68,381,198	41,501,962	57,502,225	34,736,091
Retail	16,491,753	10,905,890	6,335,730	4,301,438
Treasury	12,485,360	10,884,184	4,350,320	4,128,561
Others	5,974,934	5,401,585	1,342,957	692,134
Total	103,333,245	68,693,621	69,531,232	43,858,224
Capital Ratios	12.2 %	15.6 %	13.3 %	16.8 %
Total tier 1 capital as a percentage of risk weighted assets	9.9 %	12.4 %	10.7 %	12.6 %

45 FUND MANAGEMENT

The Group manages a number of equity funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 9,685 million at 31 December 2007 (2006 - AED 1,889 million).

46 RISK MANAGEMENT

The Group is exposed to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

A comprehensive and integrated risk management process encompassing all activities of the Group is currently under implementation. Pending completion of this project, each subsidiary within the Group is responsible for managing its own risks, credit committees and functions within the overall risk management framework of the Group.

Emirates Bank International

<u>Risk management framework and processes:</u>

The complexity in the EBI's business operations and diversity of geographical locations requires identification, measurement, aggregation and effective management of risk. EBI manages its risks in a structured, systematic and transparent manner through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

The key features of the EBI's comprehensive risk management framework are:

- Risk management is embedded in EBI as an intrinsic process and is a core competency of all its employees.
- The Board of Directors has the overall responsibility and provides the overall risk management direction and oversight.
- EBI's risk appetite is determined by the Executive Committee and approved by the Board of Directors.
- EBI's overall risk management policies are managed by the Group risk management department, headed by the Chief Risk Officer. This function is independent of the business divisions.
- Credit, market, operational and liquidity risks are managed in a coordinated manner within the organization.
- The Board Audit Sub Committee is responsible for monitoring compliance with the risk management policies and procedures, and reviewing the adequacy of the risk management framework. The internal audit function reports to the Board Audit Sub Committee and provides independent validation of the business unit's compliance with risk policies and procedures.

The risk management function assists senior management in controlling and actively managing EBI's overall risk. This function also ensures that:

- Risk policies, procedures and methodologies are consistent with EBI's risk appetite.
- EBI's overall business strategy is consistent with its risk appetite.
- Appropriate risk management architecture and systems are developed and implemented.

46 RISK MANAGEMENT (continued)

Scope and nature of risk reporting tools:

The comprehensive risk management framework enables EBI to identify, assess, manage and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to number of risk categories, while others are tailored to the particular features of specific risk categories and enable generation of information such as :

- Credit risk in commercial and consumer lending, collateral coverage ratios, limit utilisations, past due alerts etc.
- Quantification of the susceptibility of the market value of single positions or portfolios to changes in market parameters (commonly referred to as sensitivity analysis).
- Quantification of exposures to losses due to extreme and sudden movements in market prices or rates.

Risk management process:

Through the comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to the management for appropriate timely action.

National Bank of Dubai

Risk management structure

Executive Management of NBD is responsible for implementing NBD's risk strategy/appetite and policy guidelines set by various risk committees of NBD, including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done through the senior management committees and the Credit & Risk Group.

The Group Audit Committee is responsible to the Board for ensuring that NBD maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which NBD operates.

The various risk committees of NBD are responsible for the continual review and approval of the Bank's risk policies and medium term and annual risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee reviews the Bank's risk profile to ensure that it is within the Bank's risk policies and appetite parameters. It delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Bank's risk policies and strategy.

The Management Credit Committee (MCC) is responsible for credit decisions at the higher levels of NBD's lending portfolio, setting country and other high level Bank limits, dealing with impaired assets and general credit policy matters.

The Asset and Liability Committee (ALCO) is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of NBD's strategic goals. ALCO monitors NBD's liquidity and market risks and NBD's risk profile in the context of economic developments and market fluctuations, to ensure that NBD's ongoing activities are compatible with the risk/reward guidelines approved by the various risk committees of NBD.

46 RISK MANAGEMENT (continued)

The Investment Management Bank Committee (IMCO) is responsible for name clearance and review of all investment banking related deals from an operational, fiduciary and reputation risk perspective, in line with the risk/reward guidelines approved by the various risk committees of NBD.

The Operational Risk Committee oversees the independent operational risk management function and is responsible for defining long-term strategic plans and short-term tactical initiatives to prudently manage, control and measure exposure to operational risks.

Each NBD subsidiary is responsible for managing its own risks and has its own risk and credit committees.

The Management Credit Committee (MCC) has overall responsibility for centralised credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, remedial loans management and the provision of analytical resources to senior management.

Risk Management is responsible for identifying market and operational risks arising from NBD's activities, recommending to the relevant central committees appropriate policies and procedures for managing exposure to such risks and establishing the systems necessary to implement effective controls.

<u>Risk measurement and reporting systems</u>

NBD's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. NBD 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 NBD. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that NBD is willing to accept, with additional emphasis on selected industries. In addition, NBD monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

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, hold 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 allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout NBD, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to Managing Directors and all other relevant members of NBD on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

46 RISK MANAGEMENT (continued)

Risk Mitigation

As part of its overall risk management, NBD uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

NBD actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

Credit Risk:

Credit risk is defined as the likelihood that a customer or counterparty defaults in meeting the contractual financial obligations resulting in default situation and financial loss.

Emirates Bank International

Credit risk management and structure:

The approach to credit risk management is based on the foundation to preserve independence and integrity of the credit risk assessment, management and reporting processes combined with clear policies, limits and approval structures in the business segments.

EBI's Credit policy focuses on the core credit policies and includes lending parameters, target businesses, specific policy guidelines, management of high risk customers, provisioning guidelines, policies governing overseas location etc.

Board of Directors and the Board Credit and Investment Committee have delegated authority to the members of the Executive Management to facilitate and effectively manage the Business. A chain of specific delegated limits are vested upon individuals starting from business units level to the CEO. However, the Board of Directors and the Board Credit and Investment Committee retains the ultimate authority to approve larger credits.

Independent functions within risk manage credit risks on the Corporate and retail portfolios.

46 RISK MANAGEMENT (continued)

Management of Corporate Credit Risk:

The process for managing Corporate credit risk is as follow:

- Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends and customer's standing within the industry.
- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation and proactive controls over maturities, expiry of limits and collateral valuations.
- Borrower Risk Grading - Each borrower is risk graded along a ten grade scale according to its risk characteristics.
- Management of High Risk Accounts – This includes identification of delinquent accounts and controls applicable for close monitoring. Policies on interest suspension and provisioning are strictly adhered to thereby reflecting actual income and quality of assets.
- Exceptions monitoring and management – Exceptions are monitored and managed in line with credit policies.

Management of Consumer Credit Risk:

- An independent unit formulates retail credit policies and monitors compliance with them.
- Retail lending is handled through a workflow driven system that assists underwriters in assigning limits and in the approval of exceptions.
- All new products are evaluated against approved policy guidelines. The evaluation takes into account the risk and reward dynamics.
- The risk grade of an account reflects the associated risks measured by the delinquency history.
- Criteria for general provisions is as follows:

  - Credit Cards – 61 days past due
  - Other retail loans – 91 days past due

Credit Risk Monitoring:

EBI's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, valuation of collateral and market intelligence. The results of the monitoring process are reflected in the risk grading process.

Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to ensure senior management is aware of shifts in the credit quality of portfolio along with changing external factors.

A specialised and focused "Special Loans Group" team handles the management and collection of problem credit facilities.

46 RISK MANAGEMENT (continued)

Group credit risk mitigation strategy:

Portfolio diversification is the basis of EBI's credit risk mitigation strategy. Diversification is achieved by setting customer, industry and geographical limits.

Collaterals and guarantees are effectively used as mitigating tools by EBI. The quality of collateral is continuously monitored and assessed.

The risk transfer in the form of syndicated loans, risk participation agreements with other banks, credit default swaps and sale of loans are globally accepted practices followed by the group to limit its exposure.

Collateral Management:

Where credit facilities are secured by collateral, EBI seeks to ensure the enforceability of the same. Acceptable collaterals are clearly documented in the Credit Policies.

Collaterals are revalued periodically. This enables EBI to assess the fair market value of the collateral and ensure that risks are appropriately covered.

National Bank of Dubai

Credit risk management and structure

NBD manages credit risk by setting limits for individual borrowers, groups of borrowers, and geographical and industry segments. NBD also monitors credit exposures and continually assesses the creditworthiness of counterparties. NBD considers it appropriate to obtain security where it considers that the creditworthiness of the customer does not merit an unsecured facility or where it considers it necessary to mitigate the credit risk. In addition, NBD enters into master netting arrangements and collateral arrangements with counterparties and limits the duration of exposures.

NBD sets policies and procedures for managing credit risks. Credit exposures are monitored through exception reports, annual review of facilities, short-form reviews and periodical revaluation of collateral. A credit rating system from Moody's KMV to rate corporate segment customers has been acquired and implementation of the system commenced in March 2006.

A Management Credit Committee (MCC) is in place to provide the strategic framework to govern the extension of credit, manage the risk of the loan portfolio, ensure sufficient returns on the portfolio, and authorise individual or group credits within established guidelines.

Collateral Management

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are cash, securities, charges over real estate properties, inventory and trade receivables.

NBD also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The bank also makes use of master netting agreements with counterparties.

46 RISK MANAGEMENT (continued)

Risk Gross Maximum Exposure:

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

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

	2007 AED 000	2006 AED 000
Assets		
Deposits with Central Bank	27,732,779	6,139,812
Due from banks	12,800,902	6,822,405
Loans and receivables	152,002,233	59,278,208
Islamic financing and investment products	14,471,737	6,558,310
Trading securities	5,419,840	3,162,764
Investment securities	18,129,602	5,608,502
Investment in associates and joint ventures	2,712,372	2,296,707
Positive fair value of derivatives	3,756,345	2,034,218
Customer acceptances	2,851,216	1,020,791
Total (A)	239,877,026	92,921,717
Contingent liabilities	56,194,788	25,220,360
Undrawn loan commitments	31,847,250	6,872,100
Total (B)	88,042,038	32,092,460
Total credit risk exposure (A + B)	327,919,064	125,014,177

46 RISK MANAGEMENT (continued)

AGEING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial assets, based on the Group's credit rating system.

31 December 2007:

		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of Receivable	Carrying Amount AED 000	Low/fair Risk AED 000	Watch list AED 000	Renegotiated terms AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross Amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying Amount AED 000
Due from banks	12,800,902	12,801,218	-	-	-	-	-	-	41,684	-	(42,000)	(316)
Loans & receivables:												
Corporate lending	128,682,378	127,882,172	195,686	242,386	122,500	21,082	10,614	52,554	1,015,828	(432,027)	(428,417)	155,384
Retail lending	18,309,588	15,326,264	-	-	2,060,705	601,702	186,120	-	1,227,243	(330,881)	(761,565)	134,797
Islamic Financing	14,471,737	12,977,237	-	-	347,712	801,246	95,482	161,164	246,644	-	(157,748)	88,896
Other	5,010,267	5,010,267	-	-	-	-	-	-	114,598	-	(114,598)	-
Financial investments:												
Quoted - Government debt	7,085,196	7,085,196	-	-	-	-	-	-	-	-	-	-
Quoted - Other debt securities	9,533,994	9,533,994	-	-	-	-	-	-	-	-	-	-
Unquoted - Debt securities	1,699,281	1,699,281	-	-	-	-	-	-	-	-	-	-
Other securities	5,230,971	5,209,436	-	-	-	-	-	-	30,335	-	(8,800)	21,535

46 RISK MANAGEMENT (continued)

31 December 2006:

		Of which neither impaired nor past due on reporting date			Of which past due but not impaired on the reporting date				Of which individually impaired			
Type of Receivable	Carrying Amount AED 000	Low/fair Risk AED 000	Watch list AED 000	Renegotiated terms AED 000	<30 days AED 000	30-60 days AED 000	60-91 days AED 000	> 91days AED 000	Gross Amount AED 000	Interest suspended AED 000	Allowance for impairment AED 000	Carrying Amount AED 000
Due from banks	6,822,405	6,789,104	-	-	-	-	-	-	87,898	(1,275)	(53,322)	33,301
Loans & receivables:												
Corporate lending	46,358,411	46,047,605	115,544	86,541	10,353	4,768	1,487	35,177	516,922	(148,224)	(311,762)	56,936
Retail lending	8,861,200	7,588,708	-	-	857,269	300,220	85,857	72	441,525	(105,199)	(307,252)	29,074
Islamic Financing	6,558,310	6,195,174	-	-	51,817	29,415	6,384	237,614	132,019	-	(94,113)	37,906
Other	4,058,597	4,047,251	-	-	7,976	2,747	-	-	16,223	(5,650)	(9,950)	623
Financial investments:												
Quoted - Government debt	198,672	198,672	-	-	-	-	-	-	-	-	-	-
Quoted - Other debt securities	3,214,246	3,214,246	-	-	-	-	-	-	-	-	-	-
Unquoted - Debt securities	840,997	840,997	-	-	-	-	-	-	-	-	-	-
Other securities	4,517,351	4,517,351	-	-	-	-	-	-	-	-	-	-

46 RISK MANAGEMENT (continued)

ANALYSIS BY ECONOMIC ACTIVITY FOR ASSETS:

The group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2007 AED 000		2006 AED 000	
	Loans and Receivables	Others	Loans and Receivables	Others
Agriculture and allied activities	89,755	8,017	49,518	23,514
Mining and quarrying	484,941	-	-	-
Manufacturing	8,710,293	560,546	2,776,515	166,721
Construction	12,140,810	2,787,284	3,201,548	4,104,644
Trade	10,131,887	2,646,657	2,892,630	1,429,042
Transport and communication	8,813,415	622,900	4,000,571	433,859
Services	20,025,382	7,524,737	5,534,874	3,460,547
Sovereign	32,511,143	6,527,255	14,359,510	1,264,309
Personal	31,494,777	756,600	16,779,922	-
Real estate	8,908,929	3,206,937	1,900,180	1,581,937
Banks and other Financial Institutions	13,524,031	26,663,633	5,678,871	11,723,691
Others	6,980,926	2,984,029	2,911,033	730,501
Total Gross Assets	153,816,289	54,288,595	60,085,172	24,918,765
Less Impairment Provisions	(1,814,056)	(208,548)	(806,964)	(94,113)
Less Deferred Income	-	(545,594)	-	(375,964)
Net Financial Assets	152,002,233	53,534,453	59,278,208	24,448,688

Others includes due from banks, Islamic financing and investment products, investment securities, trading securities and investment in associates and joint ventures.

46 RISK MANAGEMENT (continued)

Liquidity Risk:

Liquidity risk is defined as the inability to generate sufficient financial resources to meet all obligations and commitments as they fall due, or having access to funds to meet payment obligations at an excessive cost. The liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

Market liquidity risks arise when a position can't be sold within a desired time period or only at a discount. This is especially the case with securities/derivatives in illiquid markets.

It is the policy of the Group to maintain adequate liquidity at all times.

Emirates Bank International

Liquidity Risk Management Structure:

The liquidity risk is managed by the Treasury and Group's Asset & Liability Management Committee (ALCO) in line with the regulatory and internal policies and guidelines.

EBI’s liquidity policy is set by the Board of Directors and adherence to the policies is monitored by ALCO.

Liquidity Risk Management:

EBI applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. EBI’s approach to manage the liquidity risk is to ensure that it has adequate funding from diversified sources at all times.

An independent function within Risk is responsible for liquidity measurement, monitoring and control and reports risk exposures directly to EBI ALCO.

EBI’s ALCO has policies, limits, and processes in place to control the flow of funds with its subsidiaries. The subsidiaries coordinate their Capital and Wholesale market funding at optimal pricing through EBI Treasury, under the oversight and direction of EBI ALCO.

To assess and manage Liquidity Risks, Group employs the following measurement techniques:

- Cash flow mismatch/liquidity gap analysis
- Liquid asset cushions

Liquidity Risk Monitoring:

All funding Liquidity Risk positions are monitored and evaluated by EBI Risk Management to ensure that future cash inflows are adequately matched to the maturity of liabilities over the short term and by major currencies.

46 RISK MANAGEMENT (continued)

Estimation of Funding Capacity:

EBI ALCO reviews the surplus funding capacity, and its sensitivity to any key event, based on the expert judgment of Treasury that is responsible for maintaining different funding sources.

Funding Diversification and deposit Concentrations:

EBI ALCO monitors the concentration risk through a combination of indicative triggers (as opposed to prescriptive Limits) that include:

- Depositor concentration;
- Maturity analysis;
- Varied funding programs (e.g., securitization);
- Investor diversification.

Liquidity Risk Mitigation

EBI Treasury is primarily responsible for implementing the Funding Liquidity management strategies on structural positions. Other business units contribute to overall structural liquidity management through its Product Mix strategies and targets.

Diversification of depositors across the sources of funds and diversification of types of wholesale investors remains the cornerstone of liquidity risk mitigation. Assorted funding products such as commercial papers, certificate of deposits and debt programs are issued to meet the liquidity requirements.

National Bank of Dubai

NBD considers its liquidity risk to be low due to the liquid nature of the NBD's balance sheet and the fact that NBD transacts mainly in highly liquid instruments.

NBD has traditionally enjoyed a strong liquidity base as a result of the core fixed income book, which is invested in highly rated (AA) and liquid international fixed income securities. Despite growth in the loan portfolio, liquidity ratios remain high; as at 31 December 2007 the NBD's liquidity ratio stood at 22 per cent. Liquidity is managed pro-actively by Treasury and is overseen by ALCO.

NBD has no history of liquidity or funding problems, and NBD structures its assets in such a way that funding is constantly assured. NBD adopts a diversification strategy in order to prevent over-exposure to any particular market.

During 2005, NBD issued its inaugural five year floating rate note under a United States Dollar (USD) one billion Euro Medium Term Note program to diversify sources of funding to support business growth going forward. In September 2006, NBD established a USD 1 billion Euro Commercial Programme to diversify short term funding sources.

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

46 RISK MANAGEMENT (continued)

NBD prepares a maturity gap analysis as part of the monthly ALM report. This helps identify potential liquidity risks in advance. The gap measures liquidity in eight time buckets for each type of asset and liability for each period, as well as cumulatively.

Liquidity in AED is available through the sale of US dollar denominated securities and subsequent sale of the dollar proceeds to the inter-bank market (or to the Central Bank) on a same day basis if required. Liquidity can be easily switched from USD to AED and vice versa due to the fixed nature and narrow spread of the foreign exchange peg.

Treasury sales activity continues to be beefed up to take advantage of opportunities on the back of increased Lending by the Corporate Bank. The table below summarises the maturity profile of the Group's Assets and Liabilities.

MATURITY ANALYSIS OF ASSETS AND LIABILITIES:

31 December 2007

	Within 3 months AED 000	**Over 3 months to 1 year AED 000**	**Over 1 year to 3 years AED 000**	**Over 3 years to 5 years AED 000**	**Over 5 years AED 000**	**Total AED 000**
ASSETS						
Cash and deposits with Central Banks	25,026,054	3,700,000	500,000	-	-	29,226,054
Due from banks	10,422,584	1,191,214	1,176,085	11,019	-	12,800,902
Loans and receivables	66,067,033	21,721,509	31,676,942	15,104,102	17,432,647	152,002,233
Islamic financing and investment products	3,805,057	1,871,899	2,740,134	3,553,938	2,500,709	14,471,737
Trading securities	5,419,840	-	-	-	-	5,419,840
Investment securities	811,057	805,239	3,566,794	1,758,408	11,188,104	18,129,602
Investment in associates and joint ventures	-	-	-	-	2,712,372	2,712,372
Investment properties	-	606,905	-	220,000	-	826,905
Property and equipment	22,323	54,669	148,119	283,573	1,129,570	1,638,254
Goodwill and intangible assets	20,000	60,000	160,000	140,985	5,797,642	6,178,627
Positive fair value of derivatives	3,542,552	129,704	26,831	-	57,258	3,756,345
Customer acceptances	2,851,216	-	-	-	-	2,851,216
Other assets	3,762,597	35,464	104	-	-	3,798,165
TOTAL ASSETS	121,750,313	30,176,603	39,995,009	21,072,025	40,818,302	253,812,252

46 RISK MANAGEMENT (continued)

31 December 2007

	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000	Total AED 000
LIABILITIES						
Customer deposits	99,901,768	11,003,384	13,198,053	1,220	-	124,104,425
Islamic customer deposits	4,288,903	6,200,603	4,052,464	-	-	14,541,970
Due to banks	42,595,839	3,438,378	275,475	18,365	-	46,328,057
Cash collateral on securities lent and repurchase agreement	2,484,755	3,125,288	-	-	-	5,610,043
Debt issued and other borrowed funds	1,551,904	1,239,328	10,115,903	12,671,795	2,083,300	27,662,230
Sukuk payable	-	-	-	1,267,185	-	1,267,185
Negative fair value of derivatives	2,527,713	117,466	49,115	-	56,539	2,750,833
Customer acceptances	2,851,216	-	-	-	-	2,851,216
Other liabilities	3,436,423	20,042	-	-	81,010	3,537,475
Equity holders' funds	-	-	-	-	25,158,818	25,158,818
TOTAL LIABILITIES AND EQUITY HOLDERS' FUNDS	159,638,521	25,144,489	27,691,010	13,958,565	27,379,667	253,812,252
OFF BALANCE SHEET						
Letters of Credit and Guarantees	17,102,797	10,450,997	24,808,662	979,821	128,036	53,470,313
31 DECEMBER 2006 MATURITY PROFILE						
ASSETS	48,525,844	9,386,891	14,165,763	10,291,250	13,508,393	95,878,141
LIABILITIES	62,732,772	10,670,874	6,342,333	5,444,155	10,688,007	95,878,141
OFF BALANCE SHEET ITEMS	6,456,106	4,046,171	13,018,288	-	-	23,520,565

46 RISK MANAGEMENT (continued)

ANALYSIS OF FINANCIAL LIABILITIES BY REMAINING CONTRACTUAL MATURITIES:

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expect that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

As at 31 December 2007	Carrying amount	Gross nominal inflow/(outflow)	Within 3 Months	Over 3 Months to 1 Year	Over 1 Year to 3 Years	Over 3 Years to 5 Years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Financial liabilities							
Customer deposits	124,104,425	126,026,094	119,329,065	6,631,468	64,588	973	-
Islamic customer deposits	14,541,970	15,157,248	4,354,382	6,385,680	4,417,186	-	-
Due to banks	46,328,057	46,884,979	43,026,690	3,536,350	300,268	21,671	-
Cash collateral on securities lent and repurchase agreement	5,610,043	5,743,474	2,512,708	3,230,766	-	-	-
Debt issued and other borrowed funds	27,662,230	32,242,828	1,673,199	1,570,577	11,079,835	14,917,182	3,002,035
Sukuk payable	1,267,185	1,552,302	-	-	-	1,552,302	-
	219,513,910	227,606,925	170,896,044	21,354,841	15,861,877	16,492,128	3,002,035
Letters of credit and guarantees	53,470,313	53,470,313	17,102,797	10,450,997	24,808,662	979,821	128,036

46 RISK MANAGEMENT (continued)

As at 31 December 2006	Carrying amount AED 000	Gross nominal inflow/(outflow) 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 Years to 5 Years AED 000	Over 5 years AED 000
Financial liabilities							
Customer deposits	40,887,052	41,968,814	40,645,955	1,077,061	245,798	-	-
Islamic customer deposits	9,045,374	9,418,176	2,890,821	3,972,576	2,554,779	-	-
Due to banks	19,975,276	20,300,139	15,830,856	4,412,516	56,767	-	-
Cash collateral on securities lent and repurchase agreement	355,087	387,045	-	-	387,045	-	-
Debt issued and other borrowed funds	12,083,060	14,305,355	-	1,584,647	3,696,159	6,511,209	2,513,340
	82,345,849	86,379,529	59,367,632	11,046,800	6,940,548	6,511,209	2,513,340
Letters of credit and guarantees	23,520,565	23,520,565	6,456,106	4,046,171	13,018,288	-	-

46 RISK MANAGEMENT (continued)

Market Risk

Market risk is the risk that the fair value or cash flows of a financial instrument or transaction will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk reflects interest rate risk, currency risk, volatility risk, and other price risks.

Emirates Bank International

Market risk management structure:

The market risk management framework governs EBI's trading and non trading related market risk. Market risk stemming from trading activities is managed by relevant businesses. The management of market risk inherent within EBI's non trading activities is the primary responsibility of EBI's ALCO. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.

All Market Risk limits are approved by EBI's Board Committee and delegated through EBI's ALCO to the GM Treasury. Head Treasury may further delegate these limits to specific Desk-Heads.

Market risk management, monitoring and mitigation:

EBI is exposed to market risk as a result of positions held in its trading books as well as its non-trading businesses. The Market Risk Management function is independent of the business units, and is responsible for monitoring effectiveness of and adherence to EBI's market risk procedures, guidelines, and policies. The business units are responsible for managing the market risks that they assume, and for remaining within the approved limits.

The main sources of market risk for EBI are interest rates, foreign exchange rates, and volatility. EBI monitors and manages its trading and banking book risk through implementation of and adherences to a robust market risk framework. This consists of, but is not limited to, regular price testing, stress modeling, and a comprehensive system of dynamic daily and monthly limits.

Limit-monitoring:

Any new or extension of existing limits are reviewed and (if appropriate) supported by Risk Management before being proposed to the Board Committee for approval. This ensures that all limits are approved and delegated in consultation with Risk Management. Any Limit breaches are recorded by Market Risk and reported to the Chief Risk Officer.

Market Risk monitors the limit utilization using a combination of direct exposure data and reports from the Front-Office.

Following Limits are monitored:

- Stop Loss limit for all trading desks
- PV01 limits for the Interest Rate Derivatives
- Spread Risk limits for the major pegged currencies
- Foreign Exchange Open Position limits
- Option Premium Limits for buying options
- Contract limits for financial Futures
- Notional Limits for Interest Rate and Currency Swaps

46 RISK MANAGEMENT (continued)

Interest rate derivatives – notional limits:

The notional limits for the interest rates derivatives trading desk have been designed to monitor the exposures at gross and net levels.

Gross exposure level limit monitoring enables the management to rationalize the pattern of long and short positions in the light of expected trading strategy of a given desk. This methodology also ensures that unusually large exposures are not masked by the net figures.

Notional limit monitoring at net level enables aggregated exposure reporting across portfolios.

Interest rate derivatives – delta limits:

Delta limits, also known as PV01 limits, are set at portfolio level, with the sub-limit structure broken down into time-buckets. The time-bucket limit methodology allows the management to monitor exposures at a more granular level. The PV01 for the EBI's interest rate derivatives trading desk as at the year-end was USD 10,600/- representing approximately 20% limit-utilization.

VaR based risk monitoring:

Group Market Risk uses Reuters KVaR for Value-at-Risk (VaR) modeling. The VaR is calculated according to the following two methodologies:

- Historical Simulation
- Monte-Carlo Simulation

The Monte-Carlo Simulation implemented by EBI uses a transformed distribution (based on the empirical distribution to preserve the characteristics of the original distribution). A set of reports for Historical and Monte-Carlo Simulation based VaR are generated for 95% and 99% confidence levels, for 1 day and 10 days holding periods. System based back-testing routine is executed benchmarking the actual VaR against the Mark-to-model Profit and loss.

For the banking book an additional set of reports modeling a holding period of six months is also generated.

In order to facilitate in-depth analysis and transparent reporting the systems are configured to provide daily VaR attribution at the Book Level, Desk Level, and Organizational Level, as follows:

- Interest Rate VaR
- Currency VaR
- Volatility VaR
- Residual VaR
- Total VaR

The VaR system was implemented in November 2006 and twelve-month, satisfactory, back testing has recently been completed. EBI plans to implement VaR-based trading limits by early 2008.

46 RISK MANAGEMENT (continued)

Trading Book Exposure Analysis:

Foreign Exchange Exposure:

	31 December 2007		31 December 2006	
Currency	Open Position in Currency	Open Position in AED	Open Position in Currency	Open Position in AED
AUD	57,586	185,691	(16,780)	(48,665)
CAD	-	-	64,119	203,276
CHF	87,372	285,269	12,831	38,693
EUR	(25,996)	(140,558)	27,241	131,925
GBP	105,991	780,434	26,100	188,452
JPY	-	-	1,679,495	51,896
NZD	(49,936)	(141,979)	(59,366)	(153,787)
QAR	688,161	694,217	-	-
SGD	(259,035)	(661,783)	-	-
USD	2,336,545	8,580,960	(3,557,318)	(13,065,672)
Total Open Position AED*		9,582,251		(12,653,882)
Total Open Position Limit (in USD)		50,000,000		40,000,000
Total Open Position (in USD)*		2,608,835		(3,445,108)
Limit Utilization (in %)*		5.2%		8.6%

EBI's Interest Rate Derivatives Exposure:

Impact of 1 basis point parallel increase in the yield curve in AED equivalent:

Transaction Currency	31 December 2007	31 December 2006
USD	152,849	177,709
AUD	13,995	-
AED	(164,550)	(169,866)
SAR	(34,060)	13,206
EUR	(6,921)	(5,031)
ZAR	3,820	-
Total	(34,867)	16,018

46 RISK MANAGEMENT (continued)

Group's Banking Book Sensitivity Analysis:

Modeled Impact of Interest Rate Shocks on the Net Interest Income:

	As at 31 December 2007		As at 31 December 2006	
	Amount (AED 000)	Variance (AED 000)	Amount (AED 000)	Variance (AED 000)
Rates Up 200	2,607,215	(35,960)	1,688,500	(104,721)
Base Case	2,643,175	-	1,793,221	-
Rates Down 200	2,578,551	(64,624)	1,819,107	25,886

IAS 39 Hedge Documentation:

The Group requires that documentation be provided by Group Treasury at the time of trade, to support every hedge transaction. The documentation must outline:

- Details of the hedged item and hedging transaction
- Type of hedge (Cash Flow or Fair value)
- How effectiveness is to be assessed
- How the hedge is effective at inception
- Why the hedge is expected to be effective during the life of the hedge

Hedge Effectiveness:

In order to enter into a hedge transaction it must be considered to be "highly effective" and identified so at the time of trade. It should also continue to be highly effective through out its life.

Effectiveness is tested with reference to the risk being hedged. If interest rate risk is being hedged then the credit spread on an instrument is not be considered for effectiveness testing. However, any change in the Fair Value of the derivative due to changes in credit rating of the counter-party with whom the derivative was transacted is included in the effectiveness test.

Hedge In-Effectiveness:

All hedge transactions, Fair Value hedges and transactions and Cash Flow hedge are subject to periodic Fair valuation. The Fair Valuation of each hedge transaction is monitored by the Group Market Risk Department. Hedge effectiveness evaluation is carried out by Group Market Risk Department on the data provided by Group Treasury.

46 RISK MANAGEMENT (continued)

National Bank of Dubai

NBD pays considerable attention to market risk. NBD uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information from a common market-data provider in order to regulate market risk.

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

Foreign exchange risk

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on profit and equity of an assumed 1% strengthening in value of the currency rate against the UAE Dirhams from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase. The effect of foreign exchange risk on equity is not significant.

Currency	% Change in currency rate	Effect on profit 2007 AED 000	Effect on profit 2006 AED 000
USD	+1	1,538	(4,217)
QAR	+1	2,031	1,929
EUR	+1	(861)	33
GBP	+1	17	148
SAR	+1	23	1,833

46 RISK MANAGEMENT (continued)

Interest rate risk:

Interest rate risk is actively managed by NBD using derivative instruments (including, for example, interest rate swaps and forward rate agreements). Positions are reviewed informally on a daily basis by Treasury and Investments and the interest rate re-pricing gap analysis is included in the ALM monthly report which addresses on-balance sheet and off-balance sheet mismatches and action taken or planned to reduce any significant mismatches. All financial instruments are accounted in accordance with IFRS.

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps.

	2007			2006	
Currency	Increase in basis points	Sensitivity of net interest income AED 000	Sensitivity of equity AED 000	Sensitivity of net interest income AED 000	Sensitivity of equity AED 000
EUR	100	17,943	1,287	8,492	464
USD	100	140,043	88,452	38,007	38,437
GBP	100	4,771	-	146	-

Equity price risk:

NBD manages the equity price risk through diversification of investments in terms of geographic distribution and industry concentration. The effect of equity price risk on equity of NBD is not significant as it's exposure to equity securities classified as available for sale is minimum. The effect on profit (as a result of a change in the fair value of equity instruments held as fair value through income statement) at the year end due to an assumed 5% change in market indices with all other variables held constant, is as follows.

		2007		2006	
Market Indices	% Change in equity price	Effect on profit AED 000	Effect on equity AED 000	Effect on profit AED 000	Effect on equity AED 000
Dubai Stock Market	+5	10,598	77	-	9,134
Abu Dhabi Stock Market	+5	585	-	-	384
Kuwait Stock Exchange	+5	83	-	-	-
Saudi Stock Exchange	+5	-	-	-	121
Others	+5	-	2,737	-	-

46 RISK MANAGEMENT (continued)

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from adverse external events.

Emirates Bank International

EBI's operational risk unit overseas these risk elements through its policies. This unit forms a part of the EBI's risk management and reports to the Chief Risk Officer.

EBI's Operational Risk Committee brings together the Chief Risk Officer and relevant business heads to facilitate prudent oversight of these risks.

The Group monitors its operational risks though an operational risk management framework that defines policies, procedures and internal controls as well as roles and responsibilities for managing and reporting operational risk.

Through the framework, the line management is able to identify, assess and decide in what form and scale they can accept, control and reduce operational risk together with the form of risk prevention measures necessary. Furthermore, it embeds a culture of transparency of information, escalation of key issues and accountability for issue resolution. EBI's risk management unit collates and reviews actual and potential loss data arising from the EBI's day-to-day operations to continuously refine its control structure.

The operational risk framework is supplemented by regular reviews from EBI's internal audit function. EBI has a comprehensive business continuity plan together with a fully equipped disaster recovery center that is periodically tested.

EBI has had a Control Risk Self Assessment Process in place since 1997. This has served as a useful tool to allow for review of operational and other risks associated with new products, services or operational initiatives prior to launch.

EBI's business processes are closely monitored to identify, assess, control and prevent potentially illicit use of EBI's services for laundering money and / or financing terrorism. EBI's anti money laundering and combating terrorism financing initiatives are regularly reviewed to ensure full compliance with local regulatory requirements and international best practices.

46 RISK MANAGEMENT (continued)

National Bank of Dubai

In each of NBD's business units, the divisional head is responsible for the effective management of these risks, including identification, assessment and overview. These business managers are supported by NBD's framework consisting of a governance structure, a suite of risk mitigating policies and skilled operational risk professionals employed throughout NBD.

NBD's risk management division monitors operational risk issues on a regular basis, reports major deviations from approved parameters and prepares regulatory risk related reports. The risk management division reviews and approves all bank documentation, new products and any variations to existing products, before they are finalised and implemented. The risk management division also reviews new sections and amendments to existing sections of the NBD's policies and procedures manuals before they are released.

NBD regularly carries out operational risk reviews. The main objectives of these reviews are to identify the risks inherent in each area, analyse them in terms of their severity and likelihood, and develop mitigation strategies for these risks. NBD also agrees key risk indicators during these review sessions in order to facilitate ongoing monitoring of risks.

47 COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated where appropriate to conform with the presentation and accounting policies adopted in these financial statements.