

# **Arab Emirates Investment Bank PJSC**

## **FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS**

**31 DECEMBER 2006**

**REPORT OF THE BOARD OF DIRECTORS**  
**For the year ended 31 December 2006**

The directors have pleasure in placing before the shareholders the Annual Report for the year ended 31 December 2006.

The bank earned a profit of AED 35,958,943 as compared to AED 24,287,352 for the previous year. Funds under management for customers increased during the year by 1% to AED 130,805,456. Deposits from customers decreased during the year by 7 % to AED 188,535,322.

The profit for the year is proposed to be appropriated as under:

	<i>AED</i>
— Transfer to legal reserve in accordance with the requirements of article 58 (1) of the articles of association of the bank	3,595,894
— Transfer to special reserve in accordance with the requirements of article 58 (2) of the articles of association of the bank	3,595,894
— Proposed cash dividend @ 15%	6,740,265
— Directors' fees	150,000

**Auditors**

Ernst & Young, the auditors of the bank, being eligible, have offered themselves for re-appointment.

On behalf of the board,

Omar Abdulla Al Futtaim  
Chairman

30 January 2007

## INDEPENDENT AUDITORS' REPORT

### Report on the Financial Statements

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

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

Signed by:  
Edward B Quinlan  
Partner  
Registration No. 93

30 January 2007

Dubai, United Arab Emirates

# Arab Emirates Investment Bank PJSC

## INCOME STATEMENT

Year ended 31 December 2006

	<i>Notes</i>	<b>2006</b> <b>AED</b>	<b>2005</b> <b>AED</b>
Interest income		<b>3,437,923</b>	2,156,081
Income from investments	4	<b>48,922,701</b>	33,883,709
		<b>52,360,624</b>	36,039,790
Interest expense		<b>(13,182,591)</b>	(8,041,555)
<b>NET INTEREST INCOME AND INCOME FROM INVESTMENTS</b>		<b>39,178,033</b>	27,998,235
Other income	5	<b>2,740,425</b>	1,325,341
<b>OPERATING INCOME</b>		<b>41,918,458</b>	29,323,576
General and administrative expenses	6	<b>(5,204,385)</b>	(4,755,579)
Impairment loss on investments		<b>(431,000)</b>	-
Other expenses		<b>(324,130)</b>	(280,645)
<b>OPERATING EXPENSES</b>		<b>(5,959,515)</b>	(5,036,224)
<b>PROFIT FOR THE YEAR</b>		<b>35,958,943</b>	24,287,352
Basic and diluted earnings per share	7	<b>79.69</b>	53.72

The attached notes 1 to 29 form part of these financial statements.

# Arab Emirates Investment Bank PJSC

## BALANCE SHEET

At 31 December 2006

	<i>Notes</i>	<b>2006</b> <b>AED</b>	<b>2005</b> <b>AED</b>
<b>ASSETS</b>			
Cash and balances with Central Bank	8	<b>1,864,087</b>	1,598,762
Due from banks		<b>44,840,626</b>	35,098,113
Loans and advances	9	<b>40,303,780</b>	10,251,975
Investments	10	<b>403,056,418</b>	590,009,547
Property and equipment	11	<b>312,227</b>	501,668
Other assets	12	<b>7,952,160</b>	3,124,776
<b>TOTAL ASSETS</b>		<b>498,329,298</b>	640,584,841
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks		<b>79,710,000</b>	42,190,500
Customers' deposits		<b>188,535,322</b>	202,301,288
Other liabilities	13	<b>3,191,084</b>	3,214,391
		<b>271,436,406</b>	247,706,179
<b>EQUITY</b>			
Share capital	14	<b>44,935,100</b>	40,852,400
Legal reserve	14	<b>17,853,925</b>	14,258,031
Special reserve	14	<b>10,156,774</b>	6,560,880
Cumulative changes in fair values	16	<b>97,198,365</b>	292,862,678
Retained earnings		<b>50,008,463</b>	28,131,573
Proposed cash dividend	15	<b>6,740,265</b>	6,127,860
Proposed scrip dividend	15	-	4,085,240
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<b>226,892,892</b>	392,878,662
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>498,329,298</b>	640,584,841

The financial statements were authorised for issue in accordance with a resolution of the directors on 30 January 2007.

Omar Abdulla Al Futtaim  
(Chairman)

Buti Obaid Al Mulla  
(Director)

The attached notes 1 to 29 form part of these financial statements.

# Arab Emirates Investment Bank PJSC

## STATEMENT OF CASH FLOWS

Year ended 31 December 2006

	<b>2006</b>	<b>2005</b>
	<b>AED</b>	<b>AED</b>
<b>OPERATING ACTIVITIES</b>		
Profit for the year	<b>35,958,943</b>	24,287,352
Adjustments for:		
Depreciation	<b>215,397</b>	208,891
Profit on sale of property and equipment	<b>(8,031)</b>	(600)
Impairment loss on investments	<b>431,000</b>	-
Change in loans and advances	<b>(30,051,805)</b>	9,549,441
Change in other assets	<b>(4,827,384)</b>	1,174,418
Change in investments (net)	<b>(9,142,184)</b>	(24,586,476)
Change in customers' deposits	<b>(13,765,966)</b>	(14,752,653)
Change in other liabilities	<b>(25,847)</b>	(1,406,546)
Net cash used in operating activities	<b>(21,215,877)</b>	(5,526,173)
<b>INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<b>(51,190)</b>	(210,714)
Proceeds from sale of property and equipment	<b>33,265</b>	600
Net cash used in investing activities	<b>(17,925)</b>	(210,114)
<b>FINANCING ACTIVITIES</b>		
Dividends paid	<b>(6,127,860)</b>	(4,902,288)
Directors' fees	<b>(150,000)</b>	(150,000)
Net cash used in financing activities	<b>(6,277,860)</b>	(5,052,288)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(27,511,662)</b>	(10,788,575)
Cash and cash equivalents at 1 January	<b>(5,493,625)</b>	5,294,950
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>(33,005,287)</b>	(5,493,625)
Cash and cash equivalents comprise the following balance sheet amounts with original maturities of three months or less:		
Cash and balances with Central Bank	<b>1,864,087</b>	1,598,762
Due from banks	<b>44,840,626</b>	35,098,113
Due to banks	<b>(79,710,000)</b>	(42,190,500)
	<b>(33,005,287)</b>	(5,493,625)
<b>Operational cash flows from interest and dividend</b>		
Interest paid	<b>13,001,811</b>	7,765,255
Interest received (including from investments)	<b>6,236,244</b>	9,238,224
Dividend received	<b>7,933,437</b>	7,369,241

The attached notes 1 to 29 form part of these financial statements.

Arab Emirates Investment Bank PJSC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Retained earnings AED</i>	<i>Proposed cash dividend AED</i>	<i>Proposed scrip dividend AED</i>	<i>Total AED</i>
At 1 January 2006	40,852,400	14,258,031	6,560,880	292,862,678	28,131,573	6,127,860	4,085,240	392,878,662
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	(195,664,313)	-	-	-	(195,664,313)
Total income and expense for the year recognised directly in equity	-	-	-	(195,664,313)	-	-	-	(195,664,313)
Profit for the year	-	-	-	-	35,958,943	-	-	35,958,943
<b>Total income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(195,664,313)</b>	<b>35,958,943</b>	<b>-</b>	<b>-</b>	<b>(159,705,370)</b>
Cash dividends paid - 2005	-	-	-	-	-	(6,127,860)	-	(6,127,860)
Scrip dividend – 2005	4,082,700	-	-	-	-	-	(4,082,700)	-
Transfers	-	3,595,894	3,595,894	-	(7,191,788)	-	(2,540)	(2,540)
Directors' fees	-	-	-	-	(150,000)	-	-	(150,000)
Proposed cash dividend – 2006 (15 %)	-	-	-	-	(6,740,265)	6,740,265	-	-
<b>Balance at 31 December 2006</b>	<b>44,935,100</b>	<b>17,853,925</b>	<b>10,156,774</b>	<b>97,198,365</b>	<b>50,008,463</b>	<b>6,740,265</b>	<b>-</b>	<b>226,892,892</b>

The attached notes 1 to 29 form part of these financial statements.

Arab Emirates Investment Bank PJSC

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Retained earnings AED</i>	<i>Proposed cash dividend AED</i>	<i>Proposed scrip dividend AED</i>	<i>Total AED</i>
At 1 January 2005	40,852,400	11,829,296	4,132,145	160,982,196	19,064,791	4,902,288	-	241,763,116
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	131,880,482	-	-	-	131,880,482
Total income and expense for the year recognised directly in equity	-	-	-	131,880,482	-	-	-	131,880,482
Profit for the year	-	-	-	-	24,287,352	-	-	24,287,352
Total income and expense for the year	-	-	-	131,880,482	24,287,352	-	-	156,167,834
Cash dividends paid - 2004	-	-	-	-	-	(4,902,288)	-	(4,902,288)
Transfers	-	2,428,735	2,428,735	-	(4,857,470)	-	-	-
Directors' fees	-	-	-	-	(150,000)	-	-	(150,000)
Proposed cash dividend – 2005 (15%)	-	-	-	-	(6,127,860)	6,127,860	-	-
Proposed scrip dividend – 2005 (10%)	-	-	-	-	(4,085,240)	-	4,085,240	-
Balance at 31 December 2005	40,852,400	14,258,031	6,560,880	292,862,678	28,131,573	6,127,860	4,085,240	392,878,662

The attached notes 1 to 29 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

### 1 INCORPORATION AND ACTIVITIES

Arab Emirates Investment Bank PJSC (the Bank) was incorporated on 17 February 1976 in Dubai by a decree of HH The Ruler of Dubai as Arab Emirates Investment Bank Limited. In 1999, the Bank was registered under the UAE Commercial Companies Law No. (8) of 1984 (as amended) as a Public Joint Stock Company. The Bank is engaged in development banking business and in investment banking and investment portfolio management. The address of the Bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates.

### 2 BASIS OF PREPARATION

#### **Accounting convention**

The financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of derivatives and available for sale investments.

The financial statements have been presented in UAE Dirhams which is the functional currency of the Bank.

#### **Statement of compliance**

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

#### **Changes in accounting policies**

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

#### **IASB Standards and Interpretations issued but not adopted**

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

##### ***Amendments to IAS 1 – Capital Disclosures***

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

##### ***IFRS 7 Financial Instruments: Disclosures***

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

##### ***IFRS 8 Operating Segments***

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

##### ***IFRIC Interpretations***

During 2006, IFRIC issued the following interpretations:

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**2 BASIS OF PREPARATION** - continued

**Significant management judgements and estimates**

**Judgements**

In the process of applying the Bank's accounting policies, management has made the following judgements, apart from these involving estimations, which have the most significant effect on the amounts recognised on the financial statements:

*Classification of investments:*

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

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

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

All other investments are classified as available for sale.

*Impairment of investments*

The bank treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment losses on loans and advances*

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

*Valuation of unquoted equity investments*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**3 SIGNIFICANT ACCOUNTING POLICIES**

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

**Revenue recognition**

Interest receivable and payable is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable.

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

**Cash and cash equivalents**

Cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition including cash and balances with Central Bank, deposits with banks and other financial institutions.

**Due from banks**

These are stated at cost less any amounts written off and provision for impairment, if any.

**Loans and advances**

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

**Non-trading investments**

These are classified as “available for sale”.

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

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

**Fair values**

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, recent arm’s length market transactions, or is based on expected discounted cash flows.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**3 SIGNIFICANT ACCOUNTING POLICIES - continued**

**Property and equipment**

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

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Furniture and equipment	4 years
Motor vehicles	4 years

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

**Deposits**

All money market and customer deposits are carried at cost less amounts repaid.

**Provisions**

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

**Leases**

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

**Employees' end of service benefits**

With respect to its national employees, the Bank makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

The Bank provides end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' final salary and subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

**Derivatives**

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

Since the derivatives entered into do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the year.

**Impairment and uncollectibility of financial assets**

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

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

For available for sale investments, reversals of impairment losses, if any, are recorded as increases in cumulative changes in fair value through equity.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**3 SIGNIFICANT ACCOUNTING POLICIES - continued**

**Fiduciary assets**

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

**Offsetting**

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

**Foreign currencies**

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

**Trade and settlement date accounting**

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

**Segment reporting**

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

**4 INCOME FROM INVESTMENTS**

	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>
Gain on sale of equities	<b>36,338,465</b>	20,674,758
Dividend income	<b>8,335,337</b>	7,369,241
Other income	<b>4,248,899</b>	5,839,710
	<b>48,922,701</b>	33,883,709

**5 OTHER INCOME**

	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>
Fees and commission income	<b>1,081,155</b>	498,572
Portfolio management fee	<b>1,215,190</b>	837,348
Net gain/(loss) on foreign currencies	<b>444,080</b>	(10,579)
	<b>2,740,425</b>	1,325,341

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**6 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2006</i> <i>AED</i>	<i>2005</i> <i>AED</i>
General and administrative expenses include:		
Staff costs	<u>3,356,638</u>	<u>2,696,861</u>
Depreciation	<u>215,397</u>	<u>208,891</u>
Rental costs – operating leases	<u>339,336</u>	<u>308,980</u>

**7 BASIC AND DILUTED EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit for the year, net of directors' fees, of AED 35,808,943 (2005: AED 24,137,352) by the weighted average number of shares outstanding during the year of 449,351 of AED 100 each (2005: 449,351 shares of AED 100 each).

The basic earnings per share of AED 59.08 as reported for 2005 has been adjusted for the effect of shares issued in 2006 as a result of the scrip dividend.

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

**8 CASH AND BALANCES WITH UAE CENTRAL BANK**

	<i>2006</i> <i>AED</i>	<i>2005</i> <i>AED</i>
Cash in hand	<u>23,064</u>	<u>20,232</u>
Balances with UAE Central Bank:		
Current account	<u>53,521</u>	<u>83,751</u>
Reserve requirements	<u>1,787,502</u>	<u>1,494,779</u>
	<u>1,864,087</u>	<u>1,598,762</u>

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

**9 LOANS AND ADVANCES**

	<i>2006</i> <i>AED</i>	<i>2005</i> <i>AED</i>
Commercial and business:		
Loans (secured)	<u>15,361,699</u>	<u>93,794</u>
Overdrafts (unsecured)	<u>24,942,081</u>	<u>10,158,181</u>
	<u>40,303,780</u>	<u>10,251,975</u>

No provisions were considered necessary in respect of any of the loans and advances provided by the Bank. At 31 December 2006, 100% of the Bank's loans and advances were to customers within the UAE (2005: 100%).

# Arab Emirates Investment Bank PJSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

### 10 INVESTMENTS

	<i>2006</i> <i>AED</i>	<i>2005</i> <i>AED</i>
<i>Available for sale</i>		
<i>Debt</i>		
Quoted	<u>55,240,180</u>	<u>52,270,926</u>
<i>Equity</i>		
Quoted	<u>338,942,181</u>	507,231,927
Unquoted	<u>8,874,057</u>	<u>30,506,694</u>
	<u>347,816,238</u>	<u>537,738,621</u>
Total	<u><u>403,056,418</u></u>	<u><u>590,009,547</u></u>

Quoted equities with a carrying value of AED 44,797,942 at 31 December 2006 (2005: AED 81,861,080) were registered in the name of certain shareholders' and third parties who have confirmed that they are holding these shares in trust on behalf of the bank.

### 11 PROPERTY AND EQUIPMENT

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2006	740,317	795,550	1,535,867
Additions	51,190	-	51,190
Disposals	(51,885)	(155,250)	(207,135)
At 31 December 2006	<u>739,622</u>	<u>640,300</u>	<u>1,379,922</u>
Depreciation:			
At 1 January 2006	544,558	489,641	1,034,199
Charge for the year	84,259	131,138	215,397
Relating to disposals	(26,651)	(155,250)	(181,901)
At 31 December 2006	<u>602,166</u>	<u>465,529</u>	<u>1,067,695</u>
Net carrying values:			
<b>At 31 December 2006</b>	<u><u>137,456</u></u>	<u><u>174,771</u></u>	<u><u>312,227</u></u>
At 31 December 2005	<u>195,760</u>	<u>305,908</u>	<u>501,668</u>

### 12 OTHER ASSETS

	<i>2006</i> <i>AED</i>	<i>2005</i> <i>AED</i>
Interest receivable	<u>2,221,390</u>	1,261,032
Other receivables and prepayments	<u>5,696,153</u>	1,863,744
Positive fair value of derivatives (note 17)	<u>34,617</u>	-
	<u><u>7,952,160</u></u>	<u><u>3,124,776</u></u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**13 OTHER LIABILITIES**

	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>
Interest payable	<b>1,115,291</b>	934,511
Staff related provisions	<b>409,748</b>	301,015
Negative fair value of derivatives (note 17)	<b>114,594</b>	60,000
Other	<b>1,551,451</b>	1,918,865
	<b>3,191,084</b>	3,214,391

**14 SHARE CAPITAL AND RESERVES**

**a) Share capital**

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2005: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the Bank comprises 449,351 ordinary shares of AED 100 each (2005: 408,524 ordinary shares of AED 100 each).

At an Extraordinary General Assembly held on 22 April 2006, the Bank's shareholders approved an increase in the issued share capital of the Bank to AED 44,937,640 by means of a scrip dividend of 40,852 shares of AED 100 each. On allotment, only 40,827 shares were issued with the remaining shares unallotted.

**b) Legal reserve**

In accordance with the Commercial Companies Law Number 8 of 1984 (as amended) and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

**c) Special reserve**

As required under Article 82 of Union Law No. 10 of 1980 and the Bank's Articles of Association, 10% of the net profit for the year has been transferred to a special reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

**15 DIVIDENDS PAID AND PROPOSED**

Cash dividends of AED 15 per share (totalling AED 6,127,860) and a scrip dividend of AED 10 per share (totalling AED 4,085,240) relating to the year 2005 were declared and paid in the current year. During 2005, cash dividends of AED 12 per share (totalling AED 4,902,288) relating to the year 2004 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 6,740,265 at AED 15 per share of AED 100 each for the year 2006. This is subject to the approval of the shareholders at the Annual General Meeting to be held during March 2007.

**16 CUMULATIVE CHANGES IN FAIR VALUES**

	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>
<i>Available for sale investments</i>		
At 1 January (as previously stated)	<b>292,862,678</b>	119,046,615
Adjustment on adoption of IAS 39 (revised)	-	41,935,581
Balance as at 1 January (restated)	<b>292,862,678</b>	160,982,196
Net movement in fair values during the year	<b>(195,664,313)</b>	131,880,482
At 31 December	<b>97,198,365</b>	292,862,678

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**17 DERIVATIVES**

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Bank entered into forward foreign exchange contracts only.

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 the year end and are neither indicative of the market risk or credit risk.

**31 December 2006**

	<i>Positive fair value AED</i>	<i>Negative fair value AED</i>	<i>Notional amount AED</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months AED</i>	<i>3-12 months AED</i>	<i>1-5 years AED</i>
<b>Forward foreign exchange contracts</b>	<b>34,617</b>	<b>114,594</b>	<b>126,250,378</b>	<b>3,418,252</b>	<b>122,832,126</b>	<b>-</b>

**31 December 2005**

	<i>Positive fair value AED</i>	<i>Negative fair value AED</i>	<i>Notional amount AED</i>	<i>Notional amounts by term to maturity</i>		
				<i>Within 3 months AED</i>	<i>3-12 months AED</i>	<i>1-5 year AED</i>
<b>Forward foreign exchange contracts</b>	<b>-</b>	<b>60,000</b>	<b>110,190,100</b>	<b>110,190,100</b>	<b>-</b>	<b>-</b>

**Derivative product types**

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

**Derivative related credit risk**

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. 100% (2005: 100%) of the Bank's derivative contracts are entered into with other financial institutions.

**Purpose of derivatives**

In the normal course of meeting the needs of the Bank's customers, the Bank is party to forward foreign exchange contracts. In addition, as part of its asset and liability management, the Bank uses forward foreign exchange contracts for hedging purposes in order to reduce its own exposure to currency risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures. Since strategic hedging does not qualify for special hedge accounting, such forward foreign exchange contracts are accounted for as trading instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**18 COMMITMENTS AND CONTINGENT LIABILITIES**

*Credit-related commitments*

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers, contingent upon the failure of the customers to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses, and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit related commitments:

	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>
<i>Contingent liabilities:</i>		
Letters of credit	<b>6,369,263</b>	15,906,533
Guarantees and acceptances	<b>7,577,654</b>	4,832,303
	<u><b>13,946,917</b></u>	<u>20,738,836</u>
<i>Commitments:</i>		
Irrevocable commitment to extend credit:		
Original term to maturity of one year or less	-	-
Original term to maturity of more than one year	<b>42,101,992</b>	45,107,602
	<u><b>42,101,992</b></u>	<u>45,107,602</u>

In addition, the Bank has commitments totalling to AED 15,251,805 (2005: AED 17,904,587) on account of investments made in securities and limited partnership funds. The Bank has to pay as and when calls are made by the funds' managers/investee company.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**19 RELATED PARTY TRANSACTIONS**

The Bank enters into transactions in the ordinary course of business with related parties, defined as major shareholders, directors, key management personnel and their related companies. All loans and advances to related parties are performing advances and are free of any provision for possible loan losses.

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

	<i><b>2006</b></i>	<i>2005</i>
	<i><b>AED</b></i>	<i>AED</i>
<i>Directors, their related parties and key management personnel:</i>		
Loans and advances	<b>13,821,282</b>	10,158,582
Customers' deposits	<b>69,770,360</b>	20,000,000
Commitments and contingencies	<b>50,678,718</b>	64,850,638

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

	<i><b>2006</b></i>	<i>2005</i>
	<i><b>AED</b></i>	<i>AED</i>
<i>Directors, their related parties and key management personnel:</i>		
Interest income	<b>436,597</b>	1,134,455
Interest expenses	<b>3,403,712</b>	781,894
Commission and fees	<b>434,859</b>	489,855

**Compensation of key management personnel:**

	<i><b>2006</b></i>	<i>2005</i>
	<i><b>AED</b></i>	<i>AED</i>
Salaries and other benefits	<b>1,620,086</b>	1,772,614

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**20 SEGMENTAL INFORMATION**

For operating purposes, the Bank is organised into two major business segments: Development Banking, which principally provides loans and other credit facilities and deposit and current accounts for corporate and individual customers and Investment Banking, which involves the management of the Bank's own investment portfolio and treasury services and providing investment portfolio management services. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds and an equitable allocation of expenses.

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Interest and other income	<b>4,963,159</b>	2,644,076	<b>50,137,890</b>	34,721,055	<b>55,101,049</b>	37,365,131
Inter-segment adjustment	<b>9,592,761</b>	6,806,519	<b>(9,592,761)</b>	(6,806,519)	-	-
	<b>14,555,920</b>	9,450,595	<b>40,545,129</b>	27,914,536	<b>55,101,049</b>	37,365,131
Profit for the year	<b>332,688</b>	1,021,667	<b>35,626,255</b>	23,265,685	<b>35,958,943</b>	24,287,352

  

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Segment assets	<b>93,801,341</b>	49,486,985	<b>404,527,957</b>	591,097,856	<b>498,329,298</b>	640,584,841
Segment liabilities and equity	<b>271,436,406</b>	247,706,179	<b>226,892,892</b>	392,878,662	<b>498,329,298</b>	640,584,841

For operational and management reporting purposes the Bank is organised as one geographical segment. Consequently, no secondary segment information is required to be provided. Information on the geographical concentrations of assets, liabilities and off-balance sheet items is provided in note 22.

**21 CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

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

For details of the composition of the loans and advances portfolio refer to note 9. For a geographical distribution of assets, liabilities and off balance sheet items refer to note 22.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**22 CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS**

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

The distribution of assets, liabilities and off-balance sheet items by geographic region and industry sector was as set out below. The distribution by geographical region is based on the location of the assets, liabilities and off-balance sheet items. Off-balance sheet items at 31 December include the notional amounts of derivative financial instruments.

	2006			2005		
	<i>Assets and equity AED</i>	<i>Liabilities and equity AED</i>	<i>Contingent liabilities and derivatives AED</i>	<i>Assets AED</i>	<i>Liabilities and equity AED</i>	<i>Contingent liabilities and derivatives AED</i>
<b>Geographic area:</b>						
United Arab Emirates	353,848,981	498,329,298	140,197,295	461,727,573	640,584,841	130,928,936
North America	22,946,949	-	-	40,186,765	-	-
Latin America	16,458,786	-	-	15,412,038	-	-
Europe	16,980,121	-	-	33,692,184	-	-
Asia Pacific	30,590,336	-	-	83,639,256	-	-
Africa	-	-	-	5,240,406	-	-
Australia	-	-	-	686,619	-	-
GCC & other ME	57,504,125	-	-	-	-	-
	<u>498,329,298</u>	<u>498,329,298</u>	<u>140,197,295</u>	<u>640,584,841</u>	<u>640,584,841</u>	<u>130,928,936</u>

	2006			2005		
	<i>Assets AED</i>	<i>Liabilities and equity AED</i>	<i>Contingent liabilities and derivatives AED</i>	<i>Assets AED</i>	<i>Liabilities and equity AED</i>	<i>Contingent liabilities and derivatives AED</i>
<b>Industry sector:</b>						
Commercial and business	224,721,476	119,903,234	13,946,917	252,140,253	185,015,679	20,738,836
Banks and financial institutions	243,618,434	101,710,000	126,250,378	361,390,025	62,690,500	110,190,100
Government entities	21,725,001	-	-	23,428,119	-	-
Others	8,264,387	276,716,064	-	3,626,444	392,878,662	-
	<u>498,329,298</u>	<u>498,329,298</u>	<u>140,197,295</u>	<u>640,584,841</u>	<u>640,584,841</u>	<u>130,928,936</u>

**23 MARKET RISK**

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis.

**24 EQUITY PRICE RISK**

Equity price risk arises from changes in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**25 INTEREST RATE RISK**

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

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

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

	<i>Effective interest rate %</i>	<i>Upto three months AED</i>	<i>Over three months to six months AED</i>	<i>Over six months to one year AED</i>	<i>Over one year to five years AED</i>	<i>Over five years AED</i>	<i>Not exposed to interest rate risk AED</i>	<i>Total</i>
<b>ASSETS</b>								
Cash and balances with UAE Central Bank	-	-	-	-	-	-	1,864,087	1,864,087
Due from banks	3.25%-6%	34,294,400	-	-	-	-	10,546,226	44,840,626
Loans and advances	6.5%-8%	35,303,780	-	-	5,000,000	-	-	40,303,780
Investments	5.25%-11.875%	-	6,859,195	7,496,867	29,635,801	11,248,318	347,816,237	403,056,418
Fixed assets	-	-	-	-	-	-	312,227	312,227
Other assets	-	-	-	-	-	-	7,952,160	7,952,160
<b>Total assets</b>		<b>69,598,180</b>	<b>6,859,195</b>	<b>7,496,867</b>	<b>34,635,801</b>	<b>11,248,318</b>	<b>368,490,937</b>	<b>498,329,298</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>								
Due to banks	5.28%-5.36%	79,710,000	-	-	-	-	-	79,710,000
Customers' deposits	3.25%-6.3%	126,704,196	15,763,608	43,111,014	-	-	2,956,504	188,535,322
Other liabilities	-	-	-	-	-	-	3,191,084	3,191,084
Shareholders' funds	-	-	-	-	-	-	226,892,892	226,892,892
<b>Total liabilities and shareholders' funds</b>		<b>206,414,196</b>	<b>15,763,608</b>	<b>43,111,014</b>	<b>-</b>	<b>-</b>	<b>233,040,480</b>	<b>498,329,298</b>
<b>Total interest rate sensitivity gap</b>		<b>(136,816,016)</b>	<b>(8,904,413)</b>	<b>(35,614,147)</b>	<b>34,635,801</b>	<b>11,248,318</b>	<b>135,450,457</b>	
<b>Cumulative interest rate sensitivity gap</b>		<b>(136,816,016)</b>	<b>(145,720,429)</b>	<b>(181,334,576)</b>	<b>(146,698,775)</b>	<b>(135,450,457)</b>	<b>-</b>	

# Arab Emirates Investment Bank PJSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

### 25 INTEREST RATE RISK – continued

The Bank's interest rate sensitivity position as at 31 December 2005, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

	<i>Effective interest rate %</i>	<i>Upto three months AED</i>	<i>Over three months to six months AED</i>	<i>Over six months to one year AED</i>	<i>Over one year to five years AED</i>	<i>Over five years AED</i>	<i>Not exposed to interest rate risk AED</i>	<i>Total AED</i>
<b>ASSETS</b>								
Cash and balances with UAE Central Bank	-	-	-	-	-	-	1,598,762	1,598,762
Due from banks	1.50%-4.75%	35,098,113	-	-	-	-	-	35,098,113
Loans and advances	3.75%-5.50%	10,251,975	-	-	-	-	-	10,251,975
Investments	5.8%-11.875%	608,755	-	930,204	36,274,011	14,457,956	537,738,621	590,009,547
Fixed assets	-	-	-	-	-	-	501,668	501,668
Other assets	-	-	-	-	-	-	3,124,776	3,124,776
<b>Total assets</b>		<b>45,958,843</b>	<b>-</b>	<b>930,204</b>	<b>36,274,011</b>	<b>14,457,956</b>	<b>542,963,827</b>	<b>640,584,841</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>								
Due to banks	2.23-4.40%	42,190,500	-	-	-	-	-	42,190,500
Customers' deposits	3%-5.95%	145,037,092	16,169,714	41,094,482	-	-	-	202,301,288
Other liabilities	-	-	-	-	-	-	3,214,391	3,214,391
Shareholders' funds	-	-	-	-	-	-	392,878,662	392,878,662
<b>Total liabilities and shareholders' funds</b>		<b>187,227,592</b>	<b>16,169,714</b>	<b>41,094,482</b>	<b>-</b>	<b>-</b>	<b>396,093,053</b>	<b>640,584,841</b>
<b>Total interest rate sensitivity gap</b>		<b>(141,268,749)</b>	<b>(16,169,714)</b>	<b>(40,164,278)</b>	<b>36,274,011</b>	<b>14,457,956</b>	<b>146,870,774</b>	
<b>Cumulative interest rate sensitivity gap</b>		<b>(141,268,749)</b>	<b>(157,438,463)</b>	<b>(197,602,741)</b>	<b>(161,328,730)</b>	<b>(146,870,774)</b>	<b>-</b>	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

**26 CURRENCY RISK**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

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

	<b>2006</b>	<b>2005</b>
	<b>AED</b>	<b>AED</b>
US Dollar	<b>109,976,749</b>	99,113,470
Pak Rupees	<b>7,589,218</b>	10,400,351
Euro	<b>13,849,332</b>	8,888,002
Australian Dollar	<b>42,812</b>	726,986
Pound Sterling	<b>(878,143)</b>	696,608
Swiss Franc	<b>12,631</b>	148,778
Danish Kroner	<b>43,291</b>	109,948

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

**27 LIQUIDITY RISK**

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

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

	<b>Total</b>	<b>Up to</b>	<b>Over</b>	<b>Over 6</b>	<b>Over 1 year</b>	<b>Items</b>
	<b>AED</b>	<b>3 month</b>	<b>3 months to</b>	<b>months to</b>	<b>1 year</b>	<b>with no</b>
		<b>AED</b>	<b>6 months</b>	<b>6 months to</b>	<b>AED</b>	<b>maturity</b>
			<b>AED</b>	<b>1 year</b>	<b>AED</b>	<b>AED</b>
<b>ASSETS</b>						
Cash and balances with UAE						
Central Bank	<b>1,864,087</b>	<b>1,864,087</b>	-	-	-	-
Due from banks	<b>44,840,626</b>	<b>44,840,626</b>	-	-	-	-
Loans and advances	<b>40,303,780</b>	<b>35,303,780</b>	-	-	<b>5,000,000</b>	-
Investments	<b>403,056,418</b>	-	<b>6,859,195</b>	<b>7,496,867</b>	<b>40,884,119</b>	<b>347,816,237</b>
Fixed assets	<b>312,227</b>	-	-	-	-	<b>312,227</b>
Other assets	<b>7,952,160</b>	<b>7,952,160</b>	-	-	-	-
<b>Total assets</b>	<b>498,329,298</b>	<b>89,960,653</b>	<b>6,859,195</b>	<b>7,496,867</b>	<b>45,884,119</b>	<b>348,128,464</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>						
Due to banks	<b>79,710,000</b>	<b>79,710,000</b>	-	-	-	-
Customers' deposits	<b>188,535,322</b>	<b>129,660,700</b>	<b>15,763,608</b>	<b>43,111,014</b>	-	-
Other liabilities	<b>3,191,084</b>	-	-	-	-	<b>3,191,084</b>
Shareholders' funds	<b>226,892,892</b>	-	-	-	-	<b>226,892,892</b>
<b>Total liabilities and Shareholders' funds</b>	<b>498,329,298</b>	<b>209,370,700</b>	<b>15,763,608</b>	<b>43,111,014</b>	-	<b>230,083,976</b>

# Arab Emirates Investment Bank PJSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2006

### 27 LIQUIDITY RISK - continued

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

	<i>Total AED</i>	<i>Up to 3 month AED</i>	<i>Over 3 months to 6 months AED</i>	<i>Over 6 months to 1 year AED</i>	<i>Over 1 year AED</i>	<i>Items with no maturity AED</i>
<b>ASSETS</b>						
Cash and balances with						
Central Bank	1,598,762	1,598,762	-	-	-	-
Due from banks	35,098,113	35,098,113	-	-	-	-
Loans and advances	10,251,975	10,251,975	-	-	-	-
Securities	590,009,547	608,755	-	930,204	50,731,967	537,738,621
Fixed assets	501,668	-	-	-	-	501,668
Other assets	3,124,776	3,124,776	-	-	-	-
<b>Total assets</b>	<b>640,584,841</b>	<b>50,682,381</b>	<b>-</b>	<b>930,204</b>	<b>50,731,967</b>	<b>538,240,289</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>						
Due to banks	42,190,500	42,190,500	-	-	-	-
Customers' deposits	202,301,288	145,037,092	16,169,714	41,094,482	-	-
Other liabilities	3,214,391	3,214,391	-	-	-	-
Shareholders' funds	392,878,662	-	-	-	-	392,878,662
<b>Total liabilities and Shareholders' funds</b>	<b>640,584,841</b>	<b>190,441,983</b>	<b>16,169,714</b>	<b>41,094,482</b>	<b>-</b>	<b>392,878,662</b>

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

### 28 FIDUCIARY ASSETS

	<i>2006 AED</i>	<i>2005 AED</i>
Balance as at 31 December	<b>130,805,456</b>	129,806,358

The Bank manages investments on behalf of its customers. These investments are held by the Bank in a fiduciary capacity and are, accordingly, not included in these financial statements as assets of the Bank.

### 29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences therefore can arise between book values under the historical cost method and fair value estimates. The fair value of the Bank's on-balance sheet financial instruments is not materially different from the carrying values at 31 December 2006, since these are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits, frequently repriced. The fair value of the Bank's derivative financial instruments is shown in note 17.