

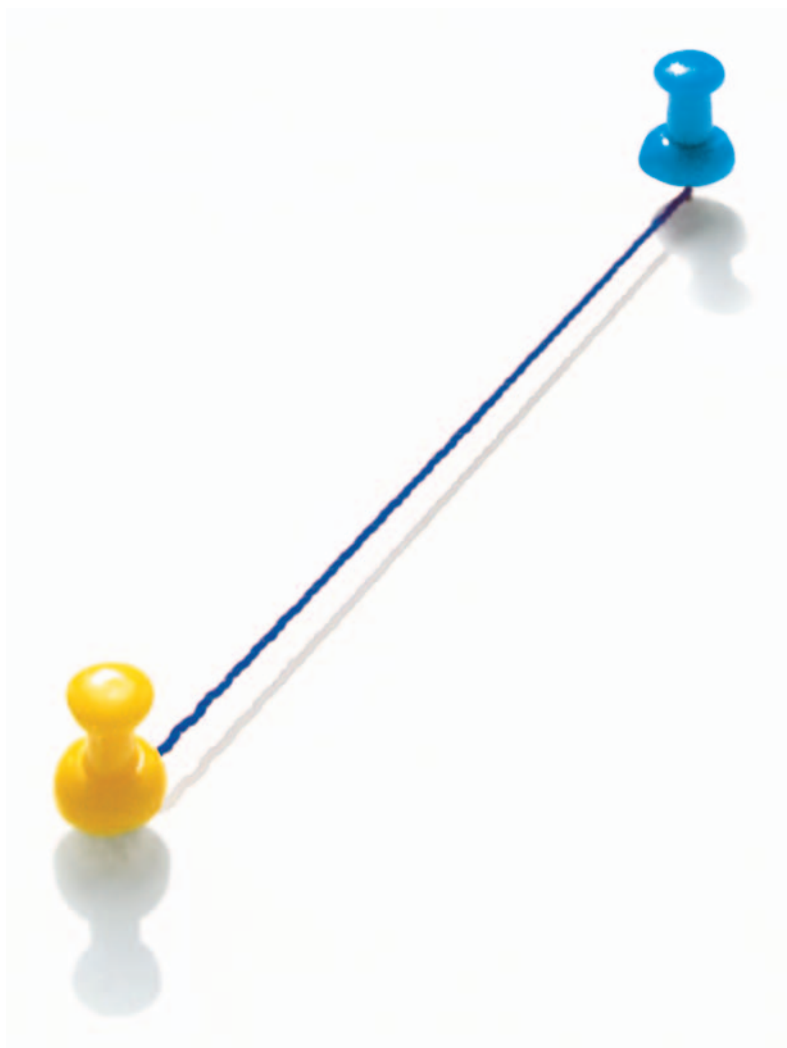
LOCAL KNOWLEDGE, REGIONAL REACH

البنك الأهلي المتحد 
ahli united bank

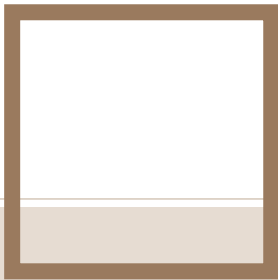


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AUB GROUP CAN BE JUSTLY PROUD OF THE SIGNIFICANT PROGRESS THAT HAS BEEN MADE IN A RELATIVELY SHORT TIMEFRAME. THE FINANCIAL RESULTS AND MILESTONES THAT HAVE BEEN ACHIEVED, BEAR TESTIMONY TO THE SUCCESSFUL IMPLEMENTATION OF A BUSINESS MODEL BUILT ON AN EFFECTIVE AND PROFIT-FOCUSED MERGERS AND ACQUISITIONS STRATEGY, ON WHICH OUR REGIONAL EXPANSION HAS BEEN BASED.



GROUP MISSION STATEMENT

MISSION STATEMENT

To create an unrivalled ability to meet customer needs, provide fulfillment and development for our staff and deliver outstanding shareholder value.



OBJECTIVES

- To maximize shareholder value on a sustainable basis
- To maintain the highest international standards of corporate governance and regulatory compliance
- To maintain solid capital adequacy and liquidity ratios
- To entrench a disciplined risk and cost management culture
- To develop a cross-cultural meritocratic management structure
- To optimise staff development through business driven training and profit related incentive
- To contribute to the social and economic advancement of the communities in which the Group operates



COMMERCIAL BANKING, TREASURY & INVESTMENTS

This division covers all the Bank's capital-intensive activities in risk asset generation and funding regionally and internationally.

- Corporate and Trade Finance
- Treasury
- Commercial Property Finance
- Residential Property Finance
- Acquisition and Structured Finance
- Correspondent Banking

PRIVATE BANKING & WEALTH MANAGEMENT

This division generally includes all the low capital-intensive sectors of the business, offering wealth management services to individuals and institutions based on performance and a balanced product mix.

- Private Banking and Asset Management
- Real Estate Fund Management
- Islamic Banking

RETAIL BANKING

This division covers all individual customers' deposits, loans, overdrafts, credit cards and residential mortgages.

RISK MANAGEMENT

This division is responsible for the identification, assessment and ongoing control of all material risks that could affect the Group's business & operations.

- Risk Management
- Legal
- Compliance
- Audit

SUPPORT SERVICES

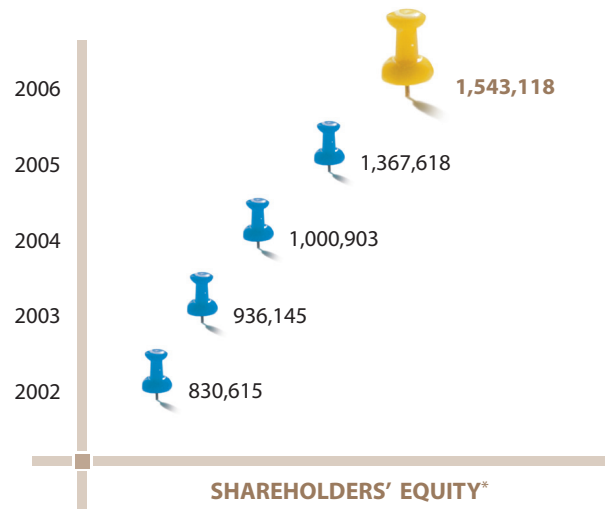
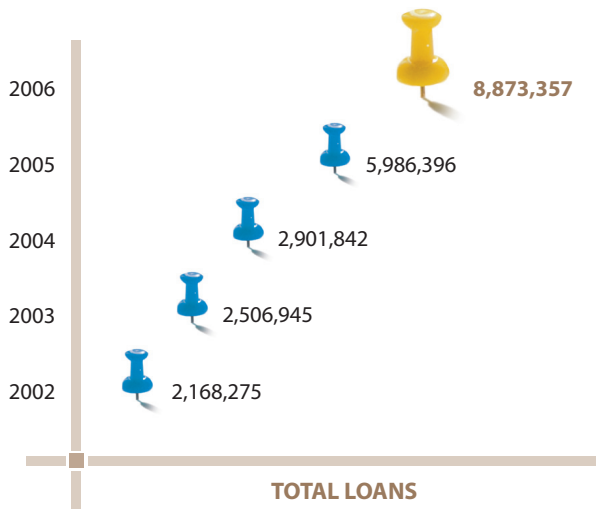
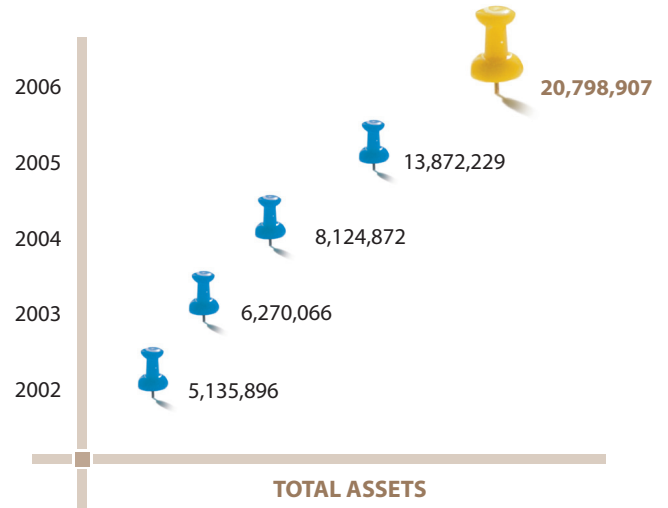
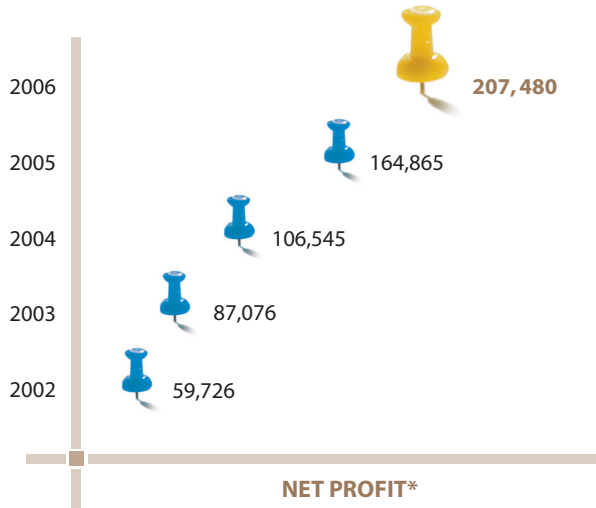
These divisions provide banking services for on-going business activities of the Group, as well as supporting the Group's expansion through mergers and acquisitions.

- Finance
- Information Technology
- Operations
- Services
- Human Resources



FINANCIAL HIGHLIGHTS

US\$ '000



(*) Attributable to the Bank's equity shareholders



US\$ 207.5 MILLION

Net Profit for the Year

26% GROWTH



CONSOLIDATED PERFORMANCE SUMMARY

	2006	2005	2004	2003	2002
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
NET PROFIT*	207,480	164,865	106,545	87,076	59,726
TOTAL ASSETS	20,798,907	13,872,229	8,124,872	6,270,066	5,135,896
TOTAL LOANS	8,873,357	5,986,396	2,901,842	2,506,945	2,168,275
TOTAL LIABILITIES & SUBORDINATED LIABILITIES	18,972,235	12,249,031	7,123,969	5,333,921	4,305,281
SHAREHOLDERS' EQUITY*	1,543,118	1,367,618	1,000,903	936,145	830,615
MINORITY INTEREST	283,554	255,580	N.A.	N.A.	N.A.
RETURN ON AVERAGE ASSETS	1.7%	2.1%	1.6%	1.5%	1.3%
RETURN ON AVERAGE EQUITY	15.1%	13.5%	11.3%	10.4%	10.8%
COST TO INCOME	39.8%	36.8%	41.2%	39.4%	44.2%
FINANCIAL LEVERAGE	12.0	8.7	6.9	5.5	5.0
RISK ASSET RATIO	14.8%	16.4%	23.7%	20.6%	24.5%
EARNINGS PER SHARE					
BASIC (US cents)	7.0	5.7	3.9	3.2	3.1
DILUTED (US cents)	6.2	4.9	3.9	3.2	3.1

* Attributable to the Bank's equity shareholders



PRINCIPAL SUBSIDIARIES



Ahli United Bank (UK) P.L.C.

	2006@	2005@	2004@	2003*	2002*
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
NET PROFIT	15,152	12,176	9,751	15,365	17,537
TOTAL ASSETS	3,445,908	2,619,619	3,054,370	2,576,494	2,350,219
TOTAL LOANS	1,089,040	830,621	1,198,111	1,499,375	1,266,520
TOTAL LIABILITIES	3,220,410	2,397,599	2,845,622	2,357,288	2,140,785
SHAREHOLDERS' EQUITY	225,498	222,020	208,748	213,127	207,912
RETURN ON AVERAGE ASSETS	0.6%	0.5%	0.4%	0.6%	0.8%
RETURN ON AVERAGE EQUITY	6.8%	5.7%	4.4%	7.3%	8.3%
COST TO INCOME	50.8%	66.0%	67.0%	56.4%	55.0%
FINANCIAL LEVERAGE	14.0	10.5	13.3	10.7	10.0
RISK ASSET RATIO	13.9%	18.0%	14.6%	14.5%	16.9%
EARNINGS PER SHARE (US cents)	7.6	6.1	4.9	7.7	11.6

* As per UK GAAP
@ Based on IFRS / IAS



The Bank of Kuwait & The Middle East K.S.C. (BKME)

	2006	2005	2004	2003	2002
	KD '000	KD '000	KD '000	KD '000	KD '000
NET PROFIT	45,111	39,919	22,776	19,081	11,217
TOTAL ASSETS	1,929,406	1,612,717	1,754,331	1,495,447	1,419,236
TOTAL LOANS	922,987	757,827	822,348	656,804	586,603
TOTAL LIABILITIES	1,672,475	1,386,261	1,542,035	1,315,572	1,259,001
SHAREHOLDERS' EQUITY	235,097	204,917	196,042	170,875	152,407
RETURN ON AVERAGE ASSETS	2.7%	2.5%	1.4%	1.3%	0.9%
RETURN ON AVERAGE EQUITY	21.5%	20.5%	12.4%	11.8%	7.4%
COST TO INCOME	34.2%	31.5%	34.2%	40.1%	46.7%
FINANCIAL LEVERAGE	6.9	6.6	7.8	7.6	8.2
RISK ASSET RATIO	18.1%**	19.5%**	17.3%	19.5%	19.7%
EARNINGS PER SHARE (Fils)	59.3	49.2	27.0	22.6	13.3

**Under BASEL II



Kuwait & Middle East Financial Investment Company K.S.C.C.

	2006	2005	2004	2003	2002
	KWD '000	KWD '000	KWD '000	KWD '000	KWD '000
NET PROFIT	8,610	10,168	9,525	1,777	131
TOTAL ASSETS	81,106	65,067	41,999	19,927	17,226
TOTAL LOANS	10,129	12,710	4,361	3,009	973
TOTAL LIABILITIES	38,367	21,921	10,355	2,155	1,903
SHAREHOLDERS' EQUITY	40,792	43,090	31,644	17,771	15,236
RETURN ON AVERAGE ASSETS	12.4%	15.6%	22.7%	9.6%	0.7%
RETURN ON AVERAGE EQUITY	20.8%	32.1%	30.1%	10.7%	0.8%
COST TO INCOME	46.9%	37.0%	24.2%	60.8%	94.2%
EARNINGS PER SHARE (Fils) - Basic	50.8	58.4	67.1	14.4	1.1



PRINCIPAL ASSOCIATES



Ahli Bank Q.S.C.

	2006	2005	2004	2003*	2002*
	QR '000	QR '000	QR '000	QR '000	QR '000
NET PROFIT	205,741	141,621	86,164	72,570	64,170
TOTAL ASSETS	9,556,360	6,181,033	4,285,935	2,544,632	2,155,362
TOTAL LOANS	6,294,372	3,490,141	1,444,843	1,256,474	1,039,350
TOTAL LIABILITIES	8,365,550	5,105,875	3,395,787	2,293,022	1,972,887
SHAREHOLDERS' EQUITY	1,185,657	1,075,158	890,148	251,610	182,475
RETURN ON AVERAGE ASSETS	2.7%	2.8%	3.5%	3.1%	3.1%
RETURN ON AVERAGE EQUITY	18.5%	15.5%	22.6%	33.4%	44.4%
COST TO INCOME	36.7%	38.1%	51.8%	34.5%	45.5%
FINANCIAL LEVERAGE	6.9	4.6	3.7	8.6	10.6
RISK ASSET RATIO**	13.2%**	19.5%	31.3%	31.7%	18.7%
EARNINGS PER SHARE (QR)	5.1	3.5	2.9	3.0	2.6

* Adjusted to fully conform with IFRS/IAS

** Under BASEL II



Commercial Bank of Iraq P.S.C.

	2005	2004	2003	2002	2001
	IQD 'millions	IQD 'millions	IQD 'millions	IQD 'millions	IQD 'millions
NET PROFIT	1,660	1,416	968	1,231	1,159
TOTAL ASSETS	155,585	73,466	56,578	42,681	32,769
TOTAL LOANS	25,044	14,482	7,773	7,733	5,117
TOTAL LIABILITIES	92,943	60,917	51,338	38,409	29,636
SHAREHOLDERS' EQUITY	62,642	12,549	5,240	4,272	3,133
RETURN ON AVERAGE ASSETS	1.8%	2.2%	2.0%	3.3%	4.2%
RETURN ON AVERAGE EQUITY	11.3%	15.9%	20.4%	33.2%	14.8%
COST INCOME RATIO	41.6%	53.1%	46.3%	47.0%	41.3%
FINANCIAL LEVERAGE	1.3	2.7	5.2	5.5	5.8
RISK ASSET RATIO	101.3%	47.8%	47.6%	33.8%	42.7%
EARNINGS PER SHARE (Fils)	117.0	142.0	282.0	493.0	644.0



Delta International Bank S.A.E

	2006	2005	2004	2003	2002
	EGP '000	EGP '000	EGP '000	EGP '000	EGP '000
NET PROFIT	222	138,874	126,600	121,700	101,000
TOTAL ASSETS	4,029,218	3,690,938	3,739,000	3,267,000	2,718,000
TOTAL LOANS	1,075,300	1,512,436	1,591,000	1,578,000	1,525,000
TOTAL LIABILITIES	3,359,437	2,983,612	3,052,900	2,607,600	2,125,975
SHAREHOLDERS' EQUITY	669,781	707,362	685,700	659,300	591,756
RETURN ON AVERAGE ASSETS	0.0%	3.9%	3.6%	3.5%	3.9%
RETURN ON AVERAGE EQUITY	0.0%	20.8%	19.0%	16.7%	18.8%
COST INCOME RATIO	56.9%	23.3%	25.2%	24.8%	26.0%
FINANCIAL LEVERAGE	4.4	4.3	4.5	4.0	3.6
RISK ASSET RATIO	46.8%	30.7%	29.1%	28.1%	27.9%
EARNINGS PER SHARE (EGP)	-	2.4	2.5	3.0	2.5

Results in line with Egyptian Accounting Standards.



Future Bank B.S.C.(c)

	2006	2005	2004	2003**	2002**
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
NET PROFIT	16,008	12,687	6,165#	17,301	6,753
TOTAL ASSETS	1,016,132	399,408	416,250	406,158	465,400
TOTAL LOANS	174,008	142,812	121,248	259,865	359,944
TOTAL LIABILITIES	894,272	281,556	311,085	357,330	423,456
SHAREHOLDERS' EQUITY	121,860	117,852	105,165	48,828	41,944
RETURN ON AVERAGE ASSETS	2.5%	3.1%	3.0%#	4.0%	1.4%
RETURN ON AVERAGE EQUITY	14.0%	11.4%	16.0%#	38.1%	15.0%
COST TO INCOME	24.5%	29.3%	26.4%#	23.9%	19.8%
FINANCIAL LEVERAGE	7.3	2.4	2.9	7.3	10.0
RISK ASSET RATIO	15.0%	35.6%	27.5%	N/A	N/A
EARNINGS PER SHARE (US CENTS)	16.2	12.8	12.5#	65.5	25.6

** Based on proforma combined financial statements prepared by Ernst & Young.

For the period 1 July to 31 Dec 2004. Returns on Average Assets, Average Equity and Earnings per share have been annualised.



BOARD OF DIRECTORS' REPORT

CONTINUING WITH ITS STRATEGY OF REGIONAL GROWTH, AUB HAS RECORDED ANOTHER STRONG FINANCIAL AND CORPORATE PERFORMANCE IN 2006, MAINTAINING ITS TREND OF SOLID AND SUSTAINABLE GROWTH SINCE ITS INCEPTION IN 2000.



The Directors of Ahli United Bank BSC ("AUB" or the "Bank") are pleased to submit the Annual Report and accompanying consolidated Financial Statements for the year ended 31 December 2006.

Continuing with its strategy of regional growth, AUB has recorded another strong financial and corporate performance in 2006, maintaining its trend of solid and sustainable growth since its inception in 2000.

The Bank reported a consolidated net profit of US\$ 207.5 million, which represents a 25.8% increase over the comparable figure for 2005 of US\$ 164.9 million. At the year-end, total assets stood at US\$ 20.8 billion (2005 – US\$ 13.9 billion) and the Bank's shareholders' equity amounted to US\$ 1.5 billion (2005 – US\$ 1.4 billion). Customers' deposits increased by 35.8% to US\$ 9.1 billion (2005: US\$ 6.7 billion), with the retail portion growth supported by the very successful Al Hassad Al Rabeh regional launch. Total operating income increased by 37.4% to US\$ 492.9 million from US\$ 358.8 million in 2005, despite the continuing pressure on margins in a very competitive environment impacted by regulatory constraints on consumer lending and achieved against a rising interest yield curve.

The increased cost-to-income ratio of 39.8% (2005: 36.8%) reflects the inflationary pressures brought about by the GCC region's strong economic growth, fuelled by the high oil prices prevailing in 2006. Despite these cost pressures, return on average equity increased from 13.5% (2005) to 15.1% (2006).

On 21 August 2006, the Bank acquired a 49.8% stake in Delta International Bank S.A.E. ("DIB"), a retail and commercial bank incorporated in Egypt with a presence of 18 branches across the country. This represents AUB's first investment in a secondary target market country. Egypt enjoys strong economic links to AUB's core markets in the Gulf which provides DIB with significant opportunities from cross-border as well as local market growth.

The Bank's risk asset ratio stood at a prudent level of 14.8% (2005: 16.4%), above the regulatory minimum of 12.0% and adjusted for the DIB acquisition. The capital base was reinforced by the International Finance Corporation's ("IFC") Tier 2 eligible subordinated debt facility of US\$ 200.0 million, drawn down in December 2006. This landmark event represents IFC's single largest investment in the MENA region, partnering with AUB to develop financial services in AUB's existing and target markets. Based on the results achieved and taking into consideration future capital needs, the Board recommends an increased cash dividend of US cents 3.5 per share (2005: US cents 3.0) and a 10% bonus share issue i.e. one ordinary share for every 10 ordinary shares held (2005: 5% bonus share issue) with necessary adjustments to convertible issues as applicable.

The continuing strong performance of the Board and the management has been rewarded with a number of awards: "Best Bank 2006 – Middle East and Africa" (awarded by Global Finance); "Global Bank of the Year 2006 – Middle East" (The Banker); "Best Foreign Exchange Bank – Middle East 2006" (Global Finance); "Best Bank and Bank of the Year 2006 – Bahrain" (Global Finance, Euromoney and The Banker). The Bank was also ranked "Best Local Private Bank in the Middle East" by Euromoney in 2006. The Bank's long-term issuer default rating was also upgraded by Fitch from BBB+ (stable) in 2005 to A- (stable) during the year.



These factors enabled the Bank to raise a 3 year-syndicated deposit facility of US\$ 1.2 billion, the largest ever syndicated deal by any financial institution in the Middle East. Together with IFC's partnership, this sets the platform for AUB's continuing organic growth and market expansion into the next year.

Directors held 132,493,978 ordinary shares (2005: 126,516,465), 105,035,029 Class A preference shares (2005: 105,035,029) and 63,000,000 Class B preference shares as at 31 December 2006 (2005: Nil). Directors' fees, allowances, expenses, salaries and remuneration totaled US\$ 1,983,567 (2005: US\$ 1,488,545). Senior management held 10,700,000 Class B preferences shares as at 31 December 2006 (2005: Nil)

On the basis of the results of the Bank for the year ended 31 December 2006, the Board of Directors recommends the following appropriations of the Bank's net profit for the approval by the shareholders:

	US\$
Transfer to statutory reserve	20,748,000
Proposed dividend - Class A preference shares (50% convertible portion) at 6.35% per *annum	14,287,500
Proposed dividend - Class B preference shares at 6.35% per annum	926,148
Proposed cash dividend - ordinary shares	95,550,000
Proposed directors' fees	832,669
Proposed donations	500,000
Transfer to retained earnings	74,635,683
Profit available for allocation	207,480,000

* In addition an equal amount of US\$14,287,500 is proposed on the 50% non-convertible portion. This represents 12 months US\$ LIBOR fixed at beginning of 2006 plus 150 basis points per terms of the Issue.

We would like to thank all our regulators, shareholders, clients, business partners and staff for their collective contribution to AUB's continued success in 2006.

Fahad Al-Rajaan

Chairman

19 February 2007



BOARD OF DIRECTORS

Fahad Al-Rajaan
Chairman and
Chairman of the Executive Committee

Director General, The Public Institution for Social Security (Kuwait); Chairman, Ahli United Bank (UK) plc; Chairman, Wafra Investment Advisory Group (New York); Board Member, National Industries Group (Kuwait); Chairman, Delta International Bank S.A.E.

Hamad A. Al Marzouq
Deputy Chairman and
Member of the Executive Committee

Deputy Chairman, Ahli United Bank (UK) plc; Chairman and Managing Director, Bank of Kuwait & the Middle East, Kuwait; Deputy Chairman, Future Bank; Deputy Chairman Ahli Bank Q.S.C., Qatar; Deputy Chairman, Delta International Bank S.A.E.



Mohammed Saleh Behbehani
Director and
Member of the Executive Committee

President, Mohammad Saleh & Reza Yousef Behbehani Co.; President, Behbehani Jeep Motors Co. WLL; President, Shereen Motor Co. WLL; Chairman, Maersk Kuwait Co. WLL; Chairman, Kuwait Insurance Co. SAK; Vice Chairman, United Beverage Co., Board Member, The Bank of Kuwait & the Middle East KSC; Former Deputy Chairman, Al Ahli Bank of Kuwait, Former Director, Swiss Kuwaiti Bank; Former Director, UBAF (Hong Kong) Limited

Hamad Al-Attiyah
Director and
Member of the Audit Committee

Director General of The General Retirement and Pension Authority of Qatar (GRPA); Chairman of Dlala' Brokerage & Investment Holding Co. (DLALA'); Board Member, The Supreme Council of Communication and Information Technology (ICT); Board Member, Masraf Al-Rayan; Director, Delta International Bank S.A.E.

Mohammed Jassim Al-Marzouk
Director and
Member of the Executive Committee

Chairman & MD, Tamdeen Real Estate Co. Kuwait; Deputy Chairman, Tamdeen Shopping Centres Development Co. Kuwait; Deputy Chairman, Barwa Al Doha Real Estate Co., Former Deputy Chairman of Tamdeen Investment Co. Former Board Member, Bank of Kuwait & the Middle East; Former Board Member, Al Ahli Bank of Kuwait; Former Board Member, Kuwait National Cinema Co; Former Board Member, Arab Financial Consulting Co; Former Chief of Executive Staff, Real Estate Investment Fund; Former Board Member, The Public Warehousing Co.

Mohammed Al-Ghanim
Director and
Member of the Audit Committee

Vice Chairman and Managing Director, Fouad Alghanim & Sons Group of Companies, Kuwait; Chairman, Al-Ghanim Industrial Company, Kuwait; Board Member, Tamdeen Real Estate Company KSCC, Kuwait; Board Member, Energy International Petroleum Projects Co. KCSC, Kuwait; Member, Supervisory Board, Jet Alliance Holding AG, Austria



Herschel Post
Director
Chairman of the Audit Committee

Director and Chairman of the Audit Committee, Ahli United Bank (UK) plc; Director and Chairman of the Audit Committee, Delta International Bank S.A.E.; Former Deputy Chairman of the London Stock Exchange; Former CEO and Deputy Chairman, Coutts & Co.; Former Chief Operating officer, Lehman Brothers International Ltd.; Former International Managing Director, Business Development, Christie's International Limited; Director Euroclear SA/NV; Director and Chairman of the Audit Committee, CRESTCo Ltd.; Director, Investors Capital Trust plc.; Director and Chairman of the Audit Committee, Threadneedle Asset Management Holdings Ltd.; Chairman, Earthwatch Institute (Europe)

Rashid Ismail Al-Meer
Deputy Chairman and
Member of the Executive Committee

Director, Ahli United Bank (UK) plc; Director General and Member of the Board of Directors, The Pension Fund Commission; Member of the Board of Directors, General Organisation for Social Insurance (GOSI) and Chairman of Audit Committee; Director, (Deputy Chairman), Esterad Investment Co. and Member of Investment Committee; Board Member, Solidarity Islamic Insurance & Assurance Co. and Chairman of Audit Committee; Formerly, Asst. Undersecretary for Financial Affairs, Ministry of Finance & National Economy; Formerly, Asst. Undersecretary for Economic Affairs, Ministry of Finance & National Economy. Formerly, Director of Investment, Various Positions, Bahrain Monetary Agency (Central Bank); Formerly, Head of Statistics Section, Ministry of Health, Bahrain



Dr. Karl Otto Pöhl
Director and
Member of the Audit Committee

Board Member, GAMCO Investors Inc., New York; Former President of Deutsche Bundesbank and Chairman of the Central Bank Council; Former Partner of Sal. Oppenheim

Abdulla Al-Sumait
Director and
Member of the Audit Committee

Head of Legal Department, The Public Institution for Social Security, (Kuwait); Director, Kuwait Commercial Facilities Company; Director, Delta International Bank S.A.E.



Adel A. El-Labban
Group Chief Executive Officer and Managing
Director, Member of the Executive Committee

Director, Ahli United Bank (UK) plc; Director, Bank of Kuwait & the Middle East KSC, Kuwait; Director, Ahli Bank QSC, Qatar; Director, Future Bank, Bahrain; Director, Delta International Bank SAE, Egypt; Board and Executive Member of Bahrain Stock Exchange; Formerly Chief Executive Officer and Director of the United Bank of Kuwait PLC, London; Managing Director, Commercial International Bank of Egypt; Chairman, Commercial International Investment Company; Vice President, Corporate Finance, Morgan Stanley



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present the 7th annual report of Ahli United Bank for the year ended 31 December 2006.

In another successful and challenging year, we met our financial and strategic objectives and made commendable progress in improving operating performance and client services across the Bank.

2006 was a year of excellent economic growth across the region supported by strong oil prices and accelerating economic development in all our core markets. Despite increasing competition in all our major markets, AUB was able to take advantage from the macroeconomic trends and leverage growth opportunities by capitalizing on our cross border strengths, mastering the process of change and integration and maintaining focus and speed to achieve set targets and develop intra group operational and cost synergies.

The AUB Group benefited from strong growth in all its business units. Driven by a strong customer focus and continuous improvement in our operating processes, AUB has been successful in raising productivity and realizing significant growth opportunities.

AUB can be justly proud of the significant progress that it has made in a relatively short timeframe. The financial results and milestones achieved bear testimony to the successful implementation of a business model built on an effective and profit-focused mergers and acquisitions strategy, on which our regional expansion has been based. This consistent strong performance of the Group has been noticed and recognized by the banking industry and by banking experts, in particular.

Behind this record lies a performance culture that guides our activities and our drive to deliver stable and sustainable income growth in a prudent manner. This core objective is strongly underpinned by operational competitiveness, the highest quality of service, maximum cost efficiencies and superior risk assessment capabilities.

2006 helped AUB cover one more milestone in our strategy of growth through developing new markets. AUB, together with its associate banks and regional financial partners, acquired an 89.3% stake in Delta International Bank (DIB) in Egypt. Acquisition of a majority stake in DIB has further expanded our regional reach, with a significant presence in a major Middle East market which opens considerable opportunities for cross border business flows with our core markets in the Gulf.

2006 has witnessed important progress for AUB in seeking to become the premier regional bank for the Gulf countries, with a broad footprint across each of its targetted markets. We are confident in the proven profitability of our pioneering experience in cross-border banking and in our ability to maximize value for all our stakeholders and in our ability to achieve further growth organically and through friendly business combinations.



DRIVEN BY A STRONG CUSTOMER FOCUS AND CONTINUOUS IMPROVEMENT IN OUR WAYS OF WORKING, AUB HAS BEEN SUCCESSFUL IN RAISING PRODUCTIVITY AND CAPTURING SIGNIFICANT GROWTH OPPORTUNITIES IN ITS TARGET MARKETS AND INCREASINGLY ON A CROSS BORDER BASIS.

Having laid the foundations in a prudent and focused manner, we move forward with greater confidence in implementing well defined strategies that pave the way towards realizing our increased ambitions towards regional expansion.

2006 was a very important year for AUB in terms of the consolidating our businesses in the countries where the Group has operations. Each of the different business units have further contributed to the achievements of the Group. Significant progress was also achieved in the pursuit of our strategic goal to establish a strong pan Gulf banking franchise and in expanding our operational and cost synergies between Group entity banks to provide a sustainable platform for future growth.

Our shareholders' support and confidence, vital to AUB's continued growth and development, are greatly appreciated. I am also particularly grateful to our customers for their trust and loyalty and to our management team and staff whose commitment and professionalism defines and determine our success.

A handwritten signature in black ink, reading 'Fahad Al-Rajaan'.

Fahad Al-Rajaan
Chairman



GROUP CEO AND MANAGING DIRECTOR'S STATEMENT

IN THE COURSE OF THE YEAR, AUB WAS THE RECIPIENT OF SEVERAL AWARDS FROM MAJOR INTERNATIONAL FINANCIAL PUBLICATIONS; GLOBAL FINANCE – BEST BANK IN MIDDLE EAST AND AFRICA AND BEST BANK IN BAHRAIN, THE BANKER – GLOBAL BANK OF THE YEAR IN MIDDLE EAST AND BANK OF THE YEAR IN BAHRAIN, EUROMONEY – BEST BANK IN BAHRAIN AS WELL AS BEING SELECTED AS BEST FOREIGN EXCHANGE BANK IN MIDDLE EAST BY GLOBAL FINANCE.



2006 marked a year of continuing economic growth in the region coupled with increasing competition in the banking sector. In this environment, Ahli United Bank continued to post strong results while maintaining its course of regional expansion. During the year, the Bank's financial and business achievements also gained further international recognition in the form of well recognized awards and key agreements and partnerships.

AUB recorded excellent growth as net profit increased by 25.8% to US\$ 207.5 million which in turn was a result of the increase in operating income to US\$ 492.9 million. The increase in operating income was due to the strong and sustainable growth achieved by all the major core businesses of the Bank.

The profit growth was reflected in a significant improvement in AUB's return on average equity (ROAE) which rose to 15.1% as compared with 13.5% in the previous year.

At year-end 2006, the Group's total assets stood at US\$ 20.8 billion, an increase of 49.6% as compared with US\$ 13.9 billion at year-end 2005. The growth in total assets reflected robust growth across all markets, particularly in the second half of the year.

Strategically, 2006 saw the expansion of AUB's regional footprint with the purchase in August of an 89.3% stake in Delta International Bank (DIB) in Egypt, for a total consideration of US\$ 287.3 million, based on a price of EGP 37 per share. The purchasing consortium was composed of AUB (31.5%) and its group banks; BKME (17.5%), Ahli Bank (5%) and Commercial Bank of Iraq (1%). The balance was acquired by major Gulf financial institutions.

Incorporated in 1978, DIB has a network of 18 branches throughout Egypt. With continuing economic liberalization, Egypt, with its large, educated population, has solid potential for the growth of retail and corporate banking. In addition to domestic growth opportunities, there are also significant business flows generated by Gulf clients doing business in Egypt as well as by the large expatriate Egyptian communities working in countries where AUB operates. Over the coming years, the number and locations of branches are set to climb steadily as AUB implements a focused expansion plan to position itself as the bank of choice for its targeted clientele.

In October, a US\$ 1.2 billion three-year syndicated deposit facility was signed by AUB with fifty-one international banks arranged by ABN Amro, BNP Paribas, Commerzbank, Lloyds-TSB and Mizuho. The syndication closed heavily over-subscribed, having raised more than US\$ 1.2 billion from an initial launch amount of US\$ 500 million. The size of the facility and wide representation of banks from across the world (Europe 63%, Far East 28%, North America 8%, and Middle East 1%) reflected the solid reputation that AUB has established in the banking industry. At its conclusion, this facility represented the single largest debt funding for a Gulf financial institution.



In November 2006, AUB signed a US\$ 200 million convertible subordinated loan agreement with the International Finance Corporation (IFC), which also acquired a 10 % equity (for circa US\$ 40 million) in DIB, Egypt, primarily through a planned capital increase. In addition to supporting AUB's expansion initiatives in the Middle East and North Africa, these commitments also represent IFC's largest investment in the region to date. The loan will support AUB in the successful pursuit of its strategic objective to become a major financial group, with an expanded network of banks and financial institutions in the region.

AUB and its major subsidiaries AUBUK and BKME received an A- (Stable) rating from Fitch in November 2006. The upgrades highlighted the key strengths of the AUB Group on the basis of robust asset quality and earnings development, supported by diversified revenue streams and reduced risk exposure.

In the course of the year, AUB was the recipient of several awards from major international financial publications; Global Finance – Best Bank in Middle East and Africa and Best Bank in Bahrain, The Banker – Global Bank of the Year in Middle East and Bank of the Year in Bahrain, Euromoney – Best Bank in Bahrain as well as being selected as Best Foreign Exchange Bank in Middle East by Global Finance. The awards reflect international recognition from business alike for the sound management principles on which our business is based and the strategic direction of AUB in seeking to achieve a significant cross-border presence in the Gulf States.

2006 results were, as always, a product of clear strategic guidance from the Board of Directors and focused execution by the AUB management and staff. This combination underpins our ambitions and gives us great confidence in future growing AUB to achieve its shareholder and staff expectations.

Adel A. El-Labban
Group Chief Executive Officer & Managing Director



CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The Board of Directors is responsible for the overall governance of the Bank. This includes determining the strategy, providing direction to the Group Management, ensuring that the control function is robust and conforms to international best practices and monitoring management's performance within an agreed framework. The Board has created three subcommittees to assist in carrying out its duties.



The Executive Committee deputises for the Board on urgent matters normally reserved for the full Board and discharges responsibilities delegated by the Board, including credit and market risk matters.

The Audit Committee assists the Board to execute its responsibilities relating to the Bank's accounting policies, internal control, compliance procedures, financial reporting and liaison with the Bank's regulators, Bahrain Stock Exchange and external auditors. This Committee is chaired by an independent Director.

The Compensation Committee has been established to assist the Board in authorising and managing the Bank's compensation arrangements and recommending the remuneration of Directors for approval by the shareholders in their Annual General Meeting.



MANAGEMENT

The Bank's Management monitors the performance of the parent Bank and each of the subsidiaries and associates on an ongoing basis and advises the Board. The monitoring of the performance is carried out through a regular assessment of performance trends against budget and prior periods and peer banks, in each of the markets and collectively through six Group Committees. The minutes of all management committees are sent to the Audit Committee and the Board of Directors who assess the effectiveness of the Committees.

The Group Management Committee (GMC) is the collective Group management forum providing a formal framework for effective consultation and transparent decision-making by the Group's senior management on cross-organisational issues such as those relating to strategy, budget, personnel, audit and compliance. It comprises the Group CEO & Managing Director, all Deputy Group CEOs and the CEOs of AUB's subsidiaries and managed affiliates. The GMC is chaired by the Group CEO & MD. AUB as the parent bank also has a separate Management Committee (MC), which is in charge of the general management of AUB's Bahrain operations only. The Group CEO and MD chairs this committee which has five other members.

The Group Asset & Liability Committee (GALCO) sets, reviews and manages the liquidity, market risk and funding strategy of the Group. It is chaired by the Senior DGCEO – Commercial Banking & Treasury and comprises six additional members.

The Group New Product Committee (GNPC) reviews and approves new products and business services, including material revisions of existing products and services. It has a total membership of ten and is chaired by Group CEO and MD.

The Group Information Technology Steering Committee (GITSC) oversees the information technology function of the Group. It reviews and manages the IT Strategy, implementation and resource prioritisation. It comprises seven members in total and is chaired by the DGCEO – Finance, Operations and IT.

The Group Risk Committee (GRC), formerly known as the Group Credit Committee, reviews and manages the risk asset policies, approvals, exposures and recoveries related to credit market, operational and compliance risks relevant to AUB and each of its subsidiaries and managed affiliates. The Committee has seven members and is chaired by the DGCEO – Risk, Legal & Compliance. The GRC also has oversight of the Group Operational Risk Sub-Committee. The responsibilities of the Group Operational Risk Sub-Committee include ensuring that the Group's approach to operational risk management is in accordance with all regulatory requirements including Basel II. It also has responsibility for ensuring the adequacy of the Group's business continuity and disaster recovery plans. This sub-committee has seven members and is chaired by the Group Head of Risk.



CORPORATE GOVERNANCE

ADDITIONAL GOVERNANCE MEASURES

In addition to the Board and Management committee structures, the Board of Directors has approved a number of Group policies to support clarity and consistency in the operations of the Group. These policies, which are communicated to staff, cover subjects such as the prevention of money laundering, confidentiality, personal share dealing, communications, legal issues and human resources related issues. Underpinning these policies is the Group Code of Business Conduct which was introduced by the Board in 2005 to establish standards of ethical business behaviour and personal conduct for the Bank's Directors, its senior management (officers) and its employees.

As a supporting governance measure, the Board is able to rely on the ongoing reviews performed by Internal and External Auditors on the Group's internal control functions. These reviews are conducted in order to identify any weaknesses, which then enables management to immediately put in place action plans for mitigation. It is important to highlight that the Group maintains adequate insurance coverage and contingency plans for systems failure including back-up systems with off-site data storage.

The Board of Directors and Management believe that these high standards of corporate governance will continue to enhance our performance and hence shareholder value over the long-term, as well as provide confidence to all shareholders, customers, regulators, rating agencies and current and future staff.





GROUP BUSINESS & RISK REVIEW

PRIVATE BANKING

Against a background of increased competition from local and international providers, Fixed Deposit pricing rose resulting in higher costs of funds while asset pricing for loans was under pressure leading to finer margins.

We focused on expanding our customer base and achieving increased market penetration through aggressive and efficient sales efforts and offering innovative investment solutions to enhance wealth management.

During the year, we were successful in merging the AUB Kuwait service office with BKME Private Banking with total utilized facilities advancing to KD 118 million. The '*Exclusiv*' brand was launched to define and distinguish our exclusive range of services. We continued to develop strategic alliances with world-class brands enabling AUB to offer exclusive discounts to our clients. These developments were instrumental to the growth in assets under management.

In offering our clients an increasingly broad and diversified range of investment instruments, several new products were introduced including four different issues of Commercial Paper, and four new funds, each providing a particular investment focus.

Both the quality and organisation of our staff were strengthened to achieve performance targets. Highly qualified relationship managers were recruited and the marketing and business development unit expanded to underpin brand development and diversify services. The Investment Management Certificate, conducted in the Middle East for the first time, was an example of the intensive training courses through which our staff have enhanced their qualifications and capabilities.

For 2007, AUB will seek to grow relationships with existing clients by providing world-class standards of service and products that are appropriate for all customer segments at varying life stages. It will be our aim to protect and enhance the wealth of high net worth individuals by matching product offerings to the customer's risk profile and personal investment horizon. We also anticipate increased focus on Islamic compliant products, in response to continued investor appetite in this category.

REAL ESTATE FUND MANAGEMENT

Real estate maintained prominence as a favoured asset class globally. The weight of money continued to force yields down, resulting in stellar performance for existing investors but causing downward pressure on returns for new investments.

The department focused on building a strong pipeline of new funds for launch by Private Banking and Wealth Management while continuing to develop the group's distribution capacity.

The drawdown and investment period for the AUB French Logistics SA SICAR was successfully concluded. The Opportunity Fund III Ltd was launched in the second quarter raising US\$ 133 million and the AUB Pan Asian Industrial Fund Ltd, which was introduced in last quarter of 2006, attracted a record total of US\$ 186 million.

BAHRAIN Coins were first issued in Bahrain in 1965. This bi-metallic coin is valued at 500 fils and also portrays a major local landmark, the Pearl Roundabout. Coins are issued for 5 fils, 10 fils, 25 fils, 50 fils and 100 fils .



The AUB Commercial Property Company Ltd and the UBK Private Equity Property Partnership, L.P. both continued to perform strongly, exceeding forecasts and respective benchmarks.

With strong demand for real estate across global markets exerting pressure on high income returns, Real Estate Fund Management (REFM) continue to work closely with fund management partners to identify and access those markets and sectors that offered investors competitive advantage.

Going forward to 2007, the renegotiation and renewal of the strategic alliance agreement with Henderson Global Investors will be concluded. While maintaining the high level of performance of existing funds, REFM department will be looking to identify potential new partners for fund creation, including a possible new fund management partner in the USA.

Up to two new pooled real estate funds are planned for launch and, in developing our new relationship with Mapletree, REFM department will work towards introducing further new products.

In addition, the department will continue to work with Relationship Managers to build the distribution platform.

ISLAMIC BANKING

With a total market size estimated at more than US\$ 250 billion and an annual growth rate of 15%, Islamic Banking is currently one of the fastest growing areas in financial markets. Market growth is being fuelled by the establishment of new Islamic Banks, the opening of Islamic windows and branches by conventional banks, the conversion of conventional Banks into Islamic Banks and increased product innovation.

In 2006, AUB focused on developing a strong foundation for Islamic Banking at the Group level in order to facilitate quick time to market in future roll outs. Prominent Islamic scholars from Qatar, Bahrain and Kuwait formed a new Sharia board and the latest integrated IT system, dedicated to processing Islamic banking products, was successfully installed at Ahli Bank, Qatar.

Islamic banking services were formally established under the Group brand name, Al Hilal, and a core package of Sharia compliant products was designed for the Bank's corporate, commercial and consumer customers. Fully fledged Islamic banking operations were successfully implemented through dedicated branches in Qatar and, by year end, total balance sheet footings of US\$ 277 million were achieved.



GROUP BUSINESS & RISK REVIEW

Development of Islamic banking at the Group level was complemented by the Shari'ah compliant Home Purchase Plan which has been successfully offered through AUB in UK for several years. In 2006, the focus remained on increasing business levels by actively marketing the product to local communities and the mortgage advisory market within the UK, as well as to our ever-increasing client base in the Gulf.

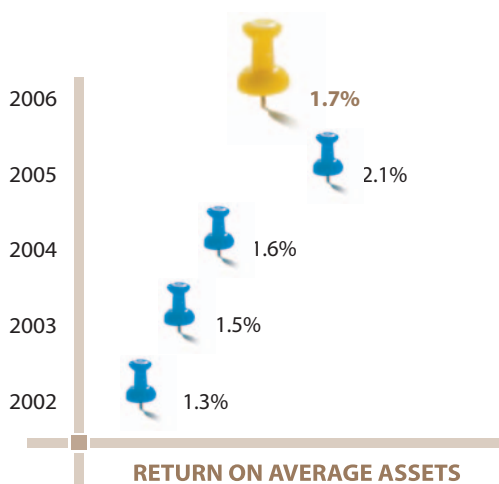
Looking ahead, the commencement of Islamic banking operations in other group entities/ regions will strengthen our regional Islamic banking brand. With new entrants in the market, competition is expected to increase. In meeting the challenge, we shall focus on product innovation and building the Al Hilal brand on transparency and high service quality.

RETAIL BANKING

For Retail Banking, 2006 was a year of steady growth and consolidation of various functions. The Bank pro actively responded to regulatory changes in lending by introducing a range of new products that allowed for a reduction in debt burden whilst ensuring that the attractive features in these products enabled the Bank to acquire significant market share, and maintain the growth momentum. Significant progress was also made during the year in improving credit policy, interest rate management, and collections procedures, resulting in enhanced revenues on the Retail Asset book.

Throughout 2006, AUB focused on developing new market opportunities to sustain growth while continuing to improve penetration levels across product and market segments.

The product range was further expanded with the introduction of new lending products targeting expatriates, car buyers, homeowners and holidaymakers.



Significant growth was achieved in the credit cards business as a result of the launch of new improved features and rewards programmes for customers. Credit card acquisition programmes such as raffle draws for a range of luxury cars enabled the Bank to increase market share.

The Bank's focus on improving its base of retail deposit relationships was further strengthened through additional enhancements like the successful Al Hassad Al Rabeh savings programme, which now ranks as the biggest savings rewards scheme in the Gulf region. Against a backdrop of rising interest rates worldwide, the Retail Banking division pro-actively implemented measures that were focused on maximizing growth in the low cost liabilities base and, at the same time, restructured rates on the assets side to ensure stability in margins. New retail investment products were among a number of initiatives aimed at improving fee income streams.

UNITED KINGDOM - Coins are issued in 8 denominations from 1 Pence to 2 Pounds. All current coins include the Latin inscription ELIZABETH II DEI GRATIA REGINA FIDEI DEFENSOR in abbreviated form, which translates as "Elizabeth II, by the grace of God, Queen and Defender of the Faith", with a profile of Queen Elizabeth II facing to the right.



Our commitment to improve customer service through technology- driven solutions was further underlined with the implementation of the first ever online trading solution offered by a regional bank. Based on our telephone and internet banking platforms, the new service enables customers to trade online on four regional stock exchanges as well as the New York Stock Exchange. Quick, easy and convenient banking services for customers was further evident in the introduction of SMS banking solutions, providing customers with the facility to perform a whole range of financial and non-financial transactions on the mobile network.

Tactical business alliances were formed with major lending institutions in Egypt and India to meet the needs of mortgage finance for expatriate customers in these respective markets. Such facilities are supported and serviced through our expanded regional footprint of 79 branch locations in throughout the GCC states.

2006 was also significant for the launch of our Al Hilal branded Islamic banking operations that signaled the initial step in our commitment to participate fully in the burgeoning Islamic banking market across the region.

Further growth in the coming years will continue to be driven by efforts aimed at expanding market share through cost efficient acquisitions, and by maintaining market leadership in being the first to launch unique product offerings that are aligned to changes in the market environment and the emergence of new market opportunities.

CORPORATE AND TRADE FINANCE

With booming economies in GCC States and foreign reserves' holdings reaching unprecedented levels, investor appetite in both the public and private sectors was undeterred by corrections in regional stock markets.

Cross-border business activities increased, with companies seeking to expand operations beyond their home territory. 2006 also witnessed the successful acquisition of OECD assets by Gulf investors, thereby creating value addition to the region's strategic development.

In favourable market conditions across the region, Corporate Banking focused on building diversified assets through selectively targeting opportunities in the Gulf and other Middle Eastern countries. Emphasis was placed on achieving acceptable returns on shareholder equity, leveraging the Group's extensive product range.



GROUP BUSINESS & RISK REVIEW

Several private placements were successfully concluded on behalf of AUB customers throughout the Gulf region. AUB's appointment as a national agent for the Arab Trade Finance Programme enabled the Bank to play a significant role in promoting and developing trade exchanges with Arab countries and in enhancing the productivity and competitiveness of AUB's manufacturing and exporting clientele. Total documentary credit negotiated at AUB in Bahrain exceeded the US \$1 billion level.

The Bank was also active in providing bonding facilities to selective contractors for major infrastructure projects while, in leveraging our presence in London, we were able to provide finance to customers in acquiring UK assets.

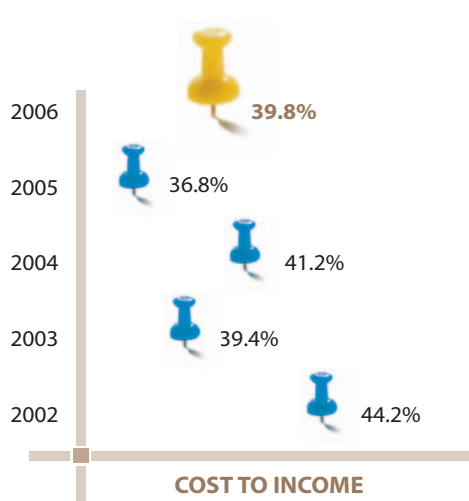
Developing our structuring capability has been essential in providing the Bank with a competitive edge in this process. With transaction sizes in the Gulf region on the increase, AUB, with its group balance sheet, is strongly positioned to play a leading role in arranging finance.

Key priorities going forward include expanding our Islamic structure capabilities, and continue to grow our fee income business.

TREASURY

As energy prices stabilised in the course of the year, volatility subsided and markets became more transparent.

The significant gains in market share, increased flows in Foreign Exchange and derivatives and enhanced staff resources and treasury capabilities, were further underlined by the award for "Best Bank in Foreign Exchange" in the Middle East.



Major changes in Treasury were implemented across the group. Sales capabilities were strengthened with continued focus on business flows from customers. As yield curves flattened and liquidity grew, interest income rose sharply and proprietary trading also made a major contribution.

As the most active and competitive trading Bank within Bahrain, AUB increased its market leading share in Foreign Exchange and derivative products. Significant gains were also made in regional markets, mainly through foreign exchange.

A key factor was the ability to procure increased levels of funding at lower rates. New staff greatly added value in terms of experience, ideas, ability and greater cohesion between entity Treasuries created more synergy and better customer service.

IRAN - 50 dinar coins were only minted in 1980 and 50 rial coins were introduced in 1981. In 1993, a new coinage was introduced with smaller 1, 5, 10 and 50 rial coins and new 100 rial pieces. Coins currently in circulation are 50, 100, 250 and 500 rial.



In addition to the syndicated loan in October, Treasury was successful in funding the Delta International Bank (DIB) acquisition and attracting new Central Bank funds from the region. Increased flows in foreign exchange and derivatives maintained the trend of previous years with budget targets being exceeded.

Staff enhancements in key positions strengthened Treasury capabilities, establishing the framework for future growth that will include a more diverse product base, the introduction of Treasury funds and a greater presence in the GCC and regional markets.

Operational procedures are being guided by the requirements of Basel II and staff are trained accordingly. The introduction of a combined two-product front office and risk management system will greatly increase the efficiency of Group funding abilities and facilitate a more effective system of managing and evaluating risk.

Key priorities for 2007 are the issue of cost of funds and implementing initiatives that will lead to more attractive funding levels. Strategies also remain firmly focused on enhancing the customer base through better relationships, aggressive pricing and the ability to provide better and more individually tailored products.

PROPERTY FINANCE

In the highly competitive property sector where good opportunities were limited, AUB UK was able to achieve significantly increased business volumes, generating strong margin income and back end fees going forward.

With investor demand chasing a shortage of opportunities, prices surged in the UK property market contributing to circa 20% returns in the commercial sector. Yields were close to their lowest level for 35 years, impelling investors to consider assets of higher risk including speculative developments and planning promotion deals.

Continental Europe, especially Germany, witnessed a significant increase in activity as major UK property investors sought better value overseas. Competition in property lending markets remained strong with major players compelled to take higher risk positions to maintain volumes.

AUB UK maintained its risk-reward profile by focusing on financing well-located assets for experienced borrowers, with significant equity invested and reasonable break-even positions, while ensuring that appropriate rewards were applicable where higher leverage was provided.



GROUP BUSINESS & RISK REVIEW

Opportunities to add value in the planning and development sectors were exploited and the Bank continued to provide speculative development finance, a lending sub-sector less competitive than the investment sector, where the risk/reward profile is more advantageous, and where the Bank has established a strong reputation and proven track record. However, with more banks entering the speculative finance markets, pricing has come under increasing pressure.

In 2006, new commitments sanctioned exceeded £ 125 million, 25% higher than the two previous years. New borrowers have expanded our development client list while existing well established relationships were strengthened through our continued emphasis on providing excellent service.

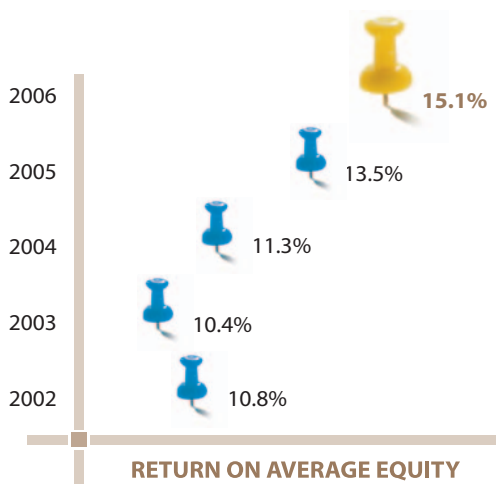
Further, planning promotion deals were secured, including a major deal signed with Colonnade Group, where a highly leveraged, revolving credit facility was provided in return for a significant forecast profit share. The facility is secured on a portfolio of 10 sites with potential for major mixed-use land allocation.

Going forward, AUB UK will focus on speculative development finance, particularly in the industrial sector, on transactions involving changes in planning use, and on deals with the potential to increase asset value. In relation to secondary investment exposure, the Bank will exercise caution as current yields on assets may not be sustainable.

RESIDENTIAL PROPERTY FINANCE

In 2006, UK residential property continued to experience sustained growth in property values, particularly in the London and South East England locations. The increase in values of London property was also underpinned by the lack of quality property stock available in the "prime" sector of the market.

This lack of stock has resulted in a reduced number of transactions, which in turn has led to increased competition from other lenders in the form of aggressive pricing and higher loan to value transactions.



In spite of the above, we are pleased to report that in pursuing our strategy to increase and maximise mortgage sales to an expanding customer base, residential lending to this sector doubled in 2006, with total assets increasing annually over the last three years. This confirms that our current product range remains competitive, strong and well structured in meeting customer demand.

Our key objective is to become the number one preferred lender to our Gulf based clients. We shall continue to actively support all relationship areas of the Bank and conduct regular visits across the Gulf in the ongoing effort to achieve this.

IRAQ - Coins were minted in Iraq in 1931. Following the establishment of the Iraqi Republic, a new series of coins was introduced. In 1970, 250 fils pieces were introduced, followed by 500 fils and 1 dinar coins in 1982.



STRUCTURED FINANCE

The market for leveraged debt was very buoyant in 2006. With several large transactions recorded, new records were achieved for total volumes. By the end of the third quarter, European loan volume had risen to € 95.6 billion, close to matching the total equivalent volume for the previous year. At the same time global default rates, at around 1%, were near all time lows.

In 2006, AUB was successful in taking a more active role in the primary market following a two-year period of relative inactivity. By focusing on the provision of senior debt to large, stable and basic businesses owned by market leading private equity firms, we were able to ensure that volumes reached record levels without impairment of credit quality.

Taking larger commitments by spreading the risk across the AUB Group was a key factor in achieving our strategic goal. This initiative was implemented in a limited number of opportunities where the risk was considered to be particularly well understood and where the size of the transaction and nature of the borrower was deemed to ensure a consistent, on-going performance and an active secondary market in the debt.

As a result, over US\$ 1,000 million of new business was generated, that exceeded budget asset growth significantly, and had a positive impact on profits for the London office and the AUB Group as a whole.

During the year we committed to two new fund investments, one in private equity and the other in mezzanine debt, both of which involved AUB as an investor for the first time. The investments were with Cinven, the second largest European private equity firm that raised a € 6.5 billion fund, and with Intermediate Capital Group, the leading arranger and provider of mezzanine debt into the LBO market, with whom we have completed five fund investments since 1996.

Strong performance from existing fund investments in Intermediate Capital Group and CVC Capital Partners (the largest European private equity investor) also contributed significantly to profits.

Investment funds showed a notable increase of interest in the LBO market due to readily available LBO debt, low historic default rates, and returns that were broadly sustained compared with those in other markets. As a result, the share of the market taken by the non-bank sector increased to 65 per cent from 45 per cent in 2005.

The inflow of new money, together with the different aspirations of the institutions, resulted in structures that included a greater proportion of non-amortising debt, facilitating increased leverage but, in general, an increased risk profile. Pricing also declined but remained attractive in the context of historic default rates.



GROUP BUSINESS & RISK REVIEW

In these circumstances, where deal selection assumed greater importance, our focus on the largest and most stable of businesses was entirely appropriate.

Looking ahead, with deal selection becoming even more critical, given the increasingly demanding financial structures being arranged in the primary markets with lower pricing, we expect to supplement our activity in the primary market through an increased focus on the secondary market where we will seek to acquire debt with a lower risk profile and corresponding return.

INFORMATION TECHNOLOGY

IT department actively pursued its prime objective to align delivery processes in support of the Bank's business divisions while standardising and centralising IT application infrastructure across the AUB Group.

Consistent with providing AUB business divisions and customers with uniform and standardised product offerings and services, several projects were initiated in 2006, including Group Internet Banking, Group Human Resource and Anti-Money Laundering systems. Significant progress was also made in the deployment of reliable and scaleable IT infrastructure.

Several key deliverables were accomplished during the year. At Group level, the implementation of significant elements of the Treasury Risk Group solution, the upgrade of the Core Banking Systems in the UK and Bahrain, the implementation of the Treasury Front- and Back-office Systems for the Ahli Bank QSC in Qatar and the Market Risk Management system in Bahrain. Also at the Group level, AUB revised the architecture and integration of Group IT infrastructure, enhanced private banking capabilities and integration, enhanced support for new consumer loan products and AUB was at the forefront in the rollout of ATM anti-fraud devices. SMS mobile banking was launched in Bahrain together with an EMV acquiring capability. Islamic banking was launched in Qatar, enhancements to the Interactive Voice Response (IVR) call centre systems were implemented in Kuwait and Bahrain and the online trading capability was extended from Kuwait and made available to our customers in Bahrain and Qatar.

For the future, the integration of Group IT infrastructure will enable AUB to better leverage Group resources so as to optimize our productivity and delivery capability in support of business initiatives.

The coming year will see tighter integration of Group IT resources and application platforms with further standardisation of processes, development procedures, and system implementation strategies across the Group.

HUMAN RESOURCES

Human Resources programmes and activities in 2006 continued to be clearly directed towards building the organisational and human capabilities within the AUB group.

Strategy focused on standardising organisation structures and roles while strengthening reporting relationships within the Group's overall organisation matrix. Core policies, processes and procedures of Human resources were re-engineered and aligned across the Group. New business entities were integrated into the Group and emphasis continued to be placed on attracting, retaining and developing a quality cadre of goal-oriented staff capable of making a major contribution to AUB's progress and aspirations.

QATAR - Divided into 100 dirhams, the riyal is issued by the Qatar Central Bank. Banknotes are denominated in 1, 5, 10, 50, 100, and 500 riyals, while coins are denominated in 50, 25, 10 and 5 dirhams.



Organic growth increased headcount across the Group by 8%, with the acquisition of Delta International Bank adding a further 42%, culminating in a total workforce of 2880.

AUB continued to underline staff incentive and participation with the implementation of a new employee share purchase programme. Another significant development was the initiation of a Group Human Resources Management Information System, scheduled for completion in 2007, and designed to improve data integrity for planning and decision making as well as facilitate more effective and efficient delivery of payroll and personnel services across the Group.

Providing quality training and development opportunities for staff was a major objective with 80% of staff benefiting from internal, external and overseas programmes. The graduate intake of 14 employees completed their extensive development programme launched last year and were subsequently placed in permanent roles within the Group.

In 2007, HR will continue to focus on unification of HR policies and processes across the Group, maximising use of the new management information system. Recruitment activities will seek to achieve more effective integration of internal and external recruitment, by applying an expanded range of candidate sourcing methods. Priority will be given to implementing training and development activities that provide opportunities for staff to align their skills with the desired mix under the Groups organizational structure and business processes. New HR projects and programmes will include talent management, succession planning and employee engagement.

In 2007, AUB won the Shaikha Sabeeka Award for Bahraini Women's Empowerment. The award is dedicated to celebrating and recognizing the role of women in the workplace and in society as a whole. A panel of distinguished Bahraini and Arab personalities selected the winners from amongst thirty organizations participating in this year's programme.

Over 35% of the bank's staff are women, and an increasing number are being promoted into professional and managerial key decision making positions. AUB operates on a system of meritocracy whereby competent staff are rewarded and recognised for their achievements irrespective of their gender. Part of that recognition involves providing AUB staff with opportunities to develop and fulfill their career potential, and this applies equally to men and women. This is an essential requirement to empower all employees to do the very best they can, which is what is required in a dynamic, growing business such as AUB.



RISK MANAGEMENT

Risk management involves the identification, assessment and ongoing control of all financial and non-financial risks that could have a negative impact on the Group's performance and reputation. The function is not responsible for eliminating risks that are embedded in any banking business, but aims to effectively manage these risks with the objective of earning competitive returns over the degree of assumed risk. Risk is financially evaluated as the potential impact on income and asset value, taking into consideration changes in political, economic and market conditions, and the creditworthiness of the Bank's clients. The Risk Management function relies on the competence, experience and dedication of its professional staff, sound risk management policies and procedures, and ongoing investment in technology and training. The Bank also supports and places considerable emphasis on the risk management recommendations of the Basel Committee on Banking Supervision and the initiatives taken by the Central Bank of Bahrain, the Central Bank of Kuwait and the UK's Financial Services Authority (FSA).

The Group promotes a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor, and control risk exposures. The Board of Directors and senior management are involved in the establishment of all risk policies and the periodic oversight and guidance of the risk management function. The Risk Management processes are subject to additional scrutiny by independent internal and external auditors, and the Bank's regulators which help to further strengthen the risk management practices.

The risk management control process is based on detailed Board approved policies and procedures that encompasses:

- (a) business line accountability for all risks taken, each business line is responsible for developing a plan that includes adequate risk/return parameters, as well as risk acceptance criteria;
- (b) a credit function that understands, monitors and independently controls each credit relationship ensuring that the appropriate approval authorities are obtained and a uniform risk management standard including risk ratings, have been correctly assigned to each and every credit relationship;
- (c) Product and business policies, which are clearly understood, monitored and are in agreement with the overall credit policy and the Board approved risk framework;
- (d) the ongoing assessment of portfolio credit risk and approval of new products; and
- (e) an integrated limits structure as an essential component that permits management to control exposures and monitor the assumption of risk against predetermined approved tolerances with global limits established for each major type of risk that is sub-allocated to individual business units.

The major risks associated with AUB's business are credit, market, liquidity and operational risks. These are detailed in the following sections:

KUWAIT - The first issue of the Kuwaiti Currency was put into circulation in April, 1961. There have been five consecutive issues of the bank notes but no changes have been made to the coins. The Kuwaiti dinar coins are issued in 6 denominations starting from 1 fils, that are rarely in use now, till 100 fils.



CREDIT RISK

Credit risk is the risk of potential financial loss due to the inability or unwillingness of a counter party to perform according to agreed terms. It arises from traditional lending activities, from settling payments between financial institutions, from products that create replacement risk when counter party commitments to the Bank are determined by reference to the changing values of contractual commitments; for example: foreign exchange forward contracts, derivatives and securities transactions, contingent obligations, and all other lending activities undertaken by the Bank. The credit process is consistent for all forms of credit risk to a single obligor. The overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk grade are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Credit risk within the Group is actively managed by a rigorous process from initiation to approval to disbursement. All day-to-day management is in accordance with well-defined Credit Policies and Procedures (CP&P) that detail all credit approval requirements and are designed to identify at an early stage exposures which require more detailed review and closer monitoring. If an asset is considered unrecoverable, a mandatory write-off takes place. This is conducted by a risk management process, which is completely independent in reporting terms from the asset generation departments.

The CP&P includes a robust risk rating system that stratifies the credit portfolio by level of risk to monitor the credit quality and to be able to assess the pricing and aid in the prompt identification of problem exposures. Management of material problem exposures is vested with Special Assets Groups in Bahrain, Kuwait and the UK, all of which report to the Group Risk Management area. All exposures are subject to quarterly and in certain cases monthly reviews.

In addition to the Group Risk Management function, credit risk is overseen by the Group Risk Committee (GRC) which is vested with the overall day-to-day responsibility for all matters relating to group credit risk including the implementation of the credit policy.

Specifically, the GRC undertakes the following:

- Acts as a credit approval body for credits within its delegated authority,
- Recommends to the Executive Committee all policy issue changes related to credit risk as well as credits falling outside its discretion,
- Determines appropriate pricing and security guidelines for all risk asset products,
- Reviews the ongoing risk profile of the Group as a whole and by individual business sectors and countries,
- Ensures the adequacy of general and specific provisions and makes appropriate recommendations to the Executive Committee.



GROUP BUSINESS & RISK REVIEW

MARKET RISK

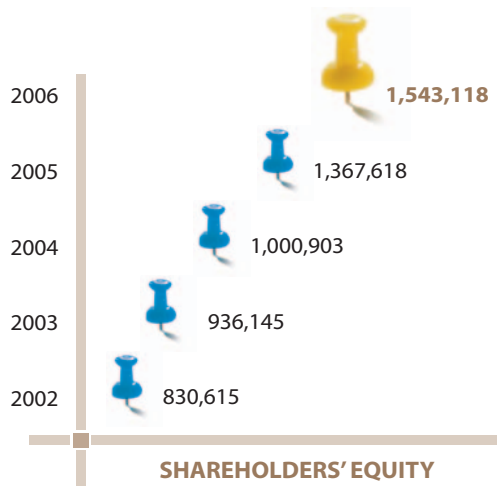
Market risk is the risk of a potential financial loss that may arise from adverse changes in the value of a financial instrument or a portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity and commodity prices and derivatives. This risk arises from asset-liability mismatch, changes that occur in the yield curve and changes in volatilities/implied volatilities in the market value of derivatives.

Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilizes Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques.

The Group calculates VaR using a one-day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates.

Average daily VaR on the trading book for 2006 was US\$ 2.2 million (2005-US\$ 3.4 million). Maximum and minimum VaR were US\$ 5.6 million and US\$ 0.6 million respectively (2005 - US\$ 6.5 million and US\$ 0.6 million respectively). VaR limits are delegated by the Board to the Group Asset and Liability Committee (GALCO) and sub-delegated to the Group's subsidiaries.

The Group recognizes that VaR is based on the assumption of normal market conditions and that certain market shocks can result in losses greater than anticipated. Therefore, a strict limit structure and control process is adopted to effectively manage market risks and monitor daily position limits and stop losses.



LIQUIDITY RISK

Liquidity risk is the risk of being unable to meet all financial commitments, at all times, without having to raise funds at unreasonable prices or sell assets on a forced basis. It is measured by estimating the Group's potential liquidity and funding requirements under different stress scenarios.

The Group's liquidity management policies and procedures are designed to ensure that funds are available under all circumstances to meet the funding requirements of the Group not only under adverse conditions but at sufficient levels to capitalize on opportunities for business expansion.

EGYPT - New coins were released in 2005 for general circulation. The attractive coins feature the most famous Pharaoh of ancient Egypt, King Tutankhamun.



A prudent mix of liquidity control based on expected economic and Group specific events substantially ensures access to liquidity without the need to increase cost. It also provides for the maintenance of a stock of liquid and marketable assets and an adequately diversified deposit base in terms of maturity and number of counter parties.

The Group Risk Management function continuously monitors liquidity risk and actively manages the balance sheet to control liquidity. At the subsidiary level, the respective treasury function manages this risk with monitoring by the Risk Management department and the jurisdiction of its Assets and Liabilities Committee (ALCO). At the Group level liquidity risk is managed by the Group Assets and Liabilities Committee (GALCO), which is vested with the overall day-to-day responsibility for all matters relating to Group liquidity.

OPERATIONAL RISK

Operational Risk is the risk of potential financial loss or reputational damage as a result of a breakdown in communications, information or legal/compliance issues, internal systems or procedural failures, human error, natural disaster, internal or external fraud, business interruption, management failure or inadequate staffing.

No material losses have occurred in 2006. However, due to the nature of risk, there can be no assurance that this risk can be totally eliminated. This risk is mitigated however, by an effective monitoring and control infrastructure, the key elements of which are qualified, well trained personnel, clear authorization levels, reliable technology, establishment of a risk culture and independent financial management and reporting. Operational risk is managed by the Group Operational Risk Committee (GORC) which reviews operational risk indicators from the Group's different departments and consolidates incidents into a central database for independent monitoring and identification of potential areas of weakness. In addition, the Group adopts an ongoing Operational Risk Self-Assessment (ORSA) process in accordance with best practice.

The Group's independent audit function regularly evaluates operational procedures and advises senior management and the Board of any potential problems. Additionally, the Group maintains adequate insurance coverage and disaster recovery/ business continuity contingency plans utilising offsite data storage and backup systems.



GROUP ORGANISATION & SHAREHOLDING

GROUP CEO AND MANAGING DIRECTOR

CEO Ahli United Bank (UK)	Senior Deputy Group CEO - Commercial Banking and Treasury	Deputy Group CEO - Private Banking and Wealth Management	Deputy Group CEO - Retail Banking	Deputy Group CEO - Finance, Operations and IT	Deputy Group CEO - Risk, Legal and Compliance	Regulatory and Support Group
	Treasury	Private Banking	Retail Banking	Finance	Risk Management	Audit
	Corporate and Trade Finance	Asset Management		Operations	Legal	Human Resources
	Proprietary Investments and Trading	Real Estate Fund Management		IT Services	Compliance	
					Corporate Secretary	

DISTRIBUTION OF BENEFICIAL ORDINARY SHARES AS OF 31/12/06

Categories	No. of Shares	No. of Shareholders	% of Total Outstanding Shares
50% and above	-	0	0
20% up to less than 50%	552,860,575	1	20.25
10% up to less than 20%	635,512,262	2	23.28
5% up to less than 10%	297,158,466	2	10.89
1% up to less than 5%	658,287,257	12	24.11
less than 1%	586,181,440	3,049	21.47
TOTAL	2,730,000,000	3,066	100.00

DISTRIBUTION OF BENEFICIAL PREFERENCE SHARES AS OF 31/12/06

Categories	No. of Shares	No. of Shareholders	% of Total Outstanding Shares
50% and above	0	0	0
20% up to less than 50%	202,513,030	1	20.25
10% up to less than 20%	337,273,526	2	33.73
5% up to less than 10%	114,766,997	2	11.48
1% up to less than 5%	261,356,594	10	26.13
less than 1%	84,089,853	327	8.41
TOTAL	1,000,000,000	342	100.00

**ADEL EL-LABBAN****Group Chief Executive Officer & Managing Director**

Director, Ahli United Bank (UK) PLC; Director, Bank of Kuwait & the Middle East, Kuwait; Director, Ahli Bank, Qatar; Director, Future Bank, Bahrain; Director, Delta International Bank, Egypt; Board and Executive Member of Bahrain Stock Exchange; Former Chief Executive Officer and Director of the United Bank of Kuwait, London; Managing Director, Commercial International Bank of Egypt; Chairman, Commercial International Investment Company; Vice President, Corporate Finance, Morgan Stanley.

MICHAEL COLLIS**Senior Deputy Group Chief Executive Officer – Commercial Banking and Treasury**

Director, Ahli United Bank (UK) PLC; Director, Kuwait and Middle East Financial Investment Company KSCC; Former Chief Executive Officer, Ahli United Bank UK (PLC) London; Previously with Lloyds Bank and Bankers Trust Company in London; Head of UK Corporate Finance, Dai-ichi Kangyo; and Executive Director, Head of Corporate Finance, Nikko Bank.

ABDULLA AL-RAEESI**Deputy Group Chief Executive Officer – Retail Banking**

Director, Ahli Bank, Qatar; Director, Delta International Bank, Egypt; Director, International Chamber of Commerce, Bahrain; Former Director, Benefit Company, Bahrain; Former Acting CEO, Ahli Bank, Qatar, Deputy CEO, Retail Banking, AUB Bahrain; AGM & Head of Delivery Channels, Commercial Bank of Qatar; AGM Support Group, Doha Bank, Qatar; Head of Business & Technology Consulting, Arthur Andersen.

SANJEEV BAIJAL**Deputy Group Chief Executive Officer – Finance, Operations and IT**

Previously Group Head of Finance, Ahli United Bank, Bahrain; Financial Controller, Al-Ahli Commercial Bank, Bahrain; Formerly with Ernst & Young, Bahrain and Price Waterhouse in India. Member of the American Institute of Certified Public Accountants (AICPA), Associate Member of the Institute of Chartered Accountants of India (ACA), and Graduate Member of the Institute of Cost & Works Accountants of India.

KEITH GALE**Deputy Group Chief Executive Officer – Risk, Legal and Compliance**

Previously Group Head of Risk Management, Ahli United Bank, Bahrain; Head of Credit and Risk at ABC International Bank PLC; Assistant Vice President – Internal Audit Department, Arab Banking Corporation, Bahrain. Held various positions in the UK with KPMG and Ernst & Young.



AUDITORS' REPORT &
CONSOLIDATED FINANCIAL STATEMENTS 2006



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C

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

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from 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 the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, 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 audit opinion.

Opinion

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

Other Regulatory Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the consolidated financial statements, and the contents of the Board of Directors' Report relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank have occurred during the year ended 31 December 2006 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position and that the Bank has complied with the terms of its banking licence.



19 February 2007
Manama, Kingdom of Bahrain



CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 US\$ '000	2005 US\$ '000
OPERATING INCOME			
Interest income		966,514	479,787
Interest expense		688,058	305,224
Net interest income		278,456	174,563
Fees and commission - net	4	116,378	75,600
Trading income - net	5	17,251	15,990
Gains on sale of non-trading investments - net		34,283	25,132
Share of profit from associates	9	28,288	60,236
Other operating income		18,201	7,337
		214,401	184,295
NET INTEREST AND OTHER INCOME			
Provision for loan losses - net	7	17,572	17,157
Provision for impairment of non-trading investments and other assets - net		17,922	14,281
		35,494	31,438
OPERATING INCOME AFTER PROVISIONS			
		457,363	327,420
OPERATING EXPENSES			
Staff costs		114,321	71,111
Depreciation		14,187	9,307
Other operating expenses		67,789	51,496
		196,297	131,914
PROFIT BEFORE TAX			
Income tax expense	16	3,243	5,730
		261,066	195,506
NET PROFIT FOR THE YEAR			
		257,823	189,776
Attributable to:			
Bank's equity shareholders		207,480	164,865
Minority interest		50,343	24,911
		257,823	189,776
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO BANK'S EQUITY SHAREHOLDERS FOR THE YEAR:			
	17		
Basic earnings per share (US cents)		7.04	5.66
Diluted earnings per share (US cents)		6.18	4.91

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

31 December 2006



	Notes	2006 US\$ '000	2005 US\$ '000
ASSETS			
Cash and balances with central banks	6	137,683	140,575
Treasury bills and bonds		959,713	982,850
Trading securities		75,829	52,765
Deposits with banks and other financial institutions		6,011,145	3,028,965
Loans and advances	7	8,873,357	5,986,396
Non-trading investments	8	3,339,102	2,534,540
Investments in associates	9	554,280	351,012
Premises and equipment		146,501	127,312
Other assets	10	268,956	231,253
Goodwill and other intangible assets		432,341	436,561
		20,798,907	13,872,229
LIABILITIES, SUBORDINATED LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions		6,919,919	3,797,163
Customers' deposits		9,039,466	6,663,104
Certificates of deposit		406,997	43,034
Term debt	11	1,542,497	966,937
Other liabilities	12	439,779	339,790
		18,348,658	11,810,028
SUBORDINATED LIABILITIES	13	623,577	439,003
EQUITY			
Ordinary share capital	14	682,500	650,000
Preference share capital	14	148,941	125,000
Reserves	15	711,677	592,618
Attributable to the Bank's equity shareholders		1,543,118	1,367,618
Minority interest		283,554	255,580
		1,826,672	1,623,198
		20,798,907	13,872,229

Fahad Al-Rajaan
Chairman

Hamad Al-Marzouq
Deputy Chairman

Adel A. El-Labban
Group Chief Executive Officer
& Managing Director

The attached notes 1 to 33 form part of these consolidated financial statements.



CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 US\$ '000	2005 US\$ '000
OPERATING ACTIVITIES			
Profit before taxation		261,066	195,506
Adjustments for:			
Depreciation		14,187	9,307
Gains on sale of non-trading investment - net		(34,283)	(25,132)
Provision for loan losses - net		17,572	17,157
Provision for impairment of non-trading investments and other assets - net		17,922	14,281
Share of profit from associates		(28,288)	(60,236)
Operating profit before changes in operating assets and liabilities		248,176	150,883
Changes in:			
Mandatory reserve deposits with central banks		(8,304)	(4,310)
Treasury bills and bonds		23,137	(218,292)
Trading securities		(23,064)	(10,995)
Deposits with banks and other financial institutions		(711,016)	(628,285)
Loans and advances		(2,904,533)	(116,059)
Other assets		(37,703)	(8,974)
Deposits from banks and other financial institutions		3,122,756	1,443,042
Customers' deposits		2,376,362	(579,642)
Certificates of deposit		363,963	(73,690)
Other liabilities		99,989	26,890
Cash from (used in) operations		2,549,763	(19,432)
Income tax paid		(9,556)	(3,116)
Net cash from (used in) operating activities		2,540,207	(22,548)
INVESTING ACTIVITIES			
Purchase of non-trading investments		(1,471,640)	(573,530)
Proceeds from sale or redemption of non-trading investments		702,776	745,432
Investment in associates		(193,489)	(62,493)
Investment in a subsidiary		-	(82,488)
(Increase) decrease in premises and equipment		(33,376)	4,028
Net cash (used in) from investing activities		(995,729)	30,949
FINANCING ACTIVITIES			
Subscription monies refunded - rights issue		-	(13,888)
Proceeds from issue of Class B preference shares		43,094	-
Increase in subordinated liabilities		184,574	79,294
Term debt	11	575,560	(44,764)
Dividend paid		(88,373)	(70,200)
Net cash (used in) financing activities		714,855	(49,558)
Foreign currency translation adjustments		635	2,248
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,259,968	(38,909)
Cash and cash equivalents at 1 January		2,107,240	2,146,149
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	18	4,367,208	2,107,240

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006



	Attributable to Bank's equity shareholders											
	Ordinary share capital US\$ '000	Preference share premium US\$ '000		Capital reserve US\$ '000	Statutory reserve US\$ '000	Foreign currency translation adjustments US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Cumulative changes in fair values US\$ '000	Total reserves US\$ '000	Minority interest US\$ '000	Total US\$ '000
		share	share									
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 31 December 2005	650,000	125,000	216,667	307	50,672	(5,010)	116,766	89,403	123,813	592,618	255,580	1,623,198
Directors' fees paid	-	-	-	-	-	-	-	(617)	-	(617)	-	(617)
Donations approved	-	-	-	-	-	-	-	(413)	-	(413)	-	(413)
Currency translation adjustments	-	-	-	-	-	635	-	-	-	635	-	635
Net fair value movements during the year	-	-	-	-	-	-	-	-	13,694	13,694	3,553	17,247
Net income recognised directly in equity	-	-	-	-	-	635	-	(1,030)	13,694	13,299	3,553	16,852
Net profit for the year	-	-	-	-	-	-	207,480	-	-	207,480	50,343	257,823
Total recognised income and expense for the year	-	-	-	-	-	635	207,480	(1,030)	13,694	220,779	53,896	274,675
Class A preference share dividend paid (note 15)	-	-	-	-	-	-	-	(10,373)	-	(10,373)	-	(10,373)
Ordinary share dividend paid (note 15)	-	-	-	-	-	-	-	(78,000)	-	(78,000)	-	(78,000)
Bonus shares issued (note 14)	32,500	-	-	-	-	-	(32,500)	-	-	(32,500)	-	-
Other equity movements of a subsidiary	-	-	-	-	-	-	-	-	-	-	(25,922)	(25,922)
Class B preference shares issued (note 14)	-	23,941	19,153	-	-	-	-	-	-	19,153	-	43,094
Transfer to statutory reserve (note 15)	-	-	-	-	20,748	-	(20,748)	-	-	-	-	-
Proposed dividend on Class A preference shares - convertible portion (note 15)	-	-	-	-	-	-	(14,288)	14,288	-	-	-	-
Proposed dividend on Class B preference shares (note 15)	-	-	-	-	-	-	(926)	926	-	-	-	-
Proposed dividend on ordinary shares (note 15)	-	-	-	-	-	-	(95,550)	95,550	-	-	-	-
Proposed directors' fees	-	-	-	-	-	-	(833)	833	-	-	-	-
Proposed donations	-	-	-	-	-	-	(500)	500	-	-	-	-
Balance at 31 December 2006	682,500	148,941	235,820	307	71,420	(4,375)	158,901	112,097	137,507	711,677	283,554	1,826,672

The attached notes 1 to 33 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Contd.)

Year ended 31 December 2006

	Attributable to Bank's equity shareholders											
	Ordinary share capital US\$ '000	Preference share capital US\$ '000	Share premium US\$ '000	Capital reserve US\$ '000	Statutory reserve US\$ '000	Foreign currency translation adjustments US\$ '000	Retained earnings US\$ '000	Proposed appropriations US\$ '000	Cumulative changes in fair values US\$ '000	Total reserves US\$ '000	Minority interest US\$ '000	Total US\$ '000
Balance at 31 December 2004 (restated)	650,000	-	123,752	307	34,185	(7,258)	57,791	70,666	71,460	350,903	-	1,000,903
Directors' fees paid	-	-	-	-	-	-	-	(466)	-	(466)	-	(466)
Arising on acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	216,769	216,769
Currency translation adjustments	-	-	-	-	-	2,248	-	-	-	2,248	-	2,248
Net fair value movements during the year	-	-	-	-	-	-	-	-	52,353	52,353	13,900	66,253
Net income recognised directly in equity	-	-	-	-	-	2,248	-	(466)	52,353	54,135	230,669	284,804
Net profit for the year	-	-	-	-	-	-	164,865	-	-	164,865	24,911	189,776
Total recognised income and expense for the year	-	-	-	-	-	2,248	164,865	(466)	52,353	219,000	255,580	474,580
Class A preference shares issued (note 14)	-	125,000	92,915	-	-	-	-	-	-	92,915	-	(217,915)
Ordinary share dividend paid (note 15)	-	-	-	-	-	-	-	(70,200)	-	(70,200)	-	(70,200)
Transfer to statutory reserve (note 15)	-	-	-	-	16,487	-	(16,487)	-	-	-	-	-
Proposed dividend on Class A preference shares - convertible portion (note 15)	-	-	-	-	-	-	(10,373)	10,373	-	-	-	-
Proposed dividend on ordinary shares (note 15)	-	-	-	-	-	-	(78,000)	78,000	-	-	-	-
Proposed directors' fees	-	-	-	-	-	-	(617)	617	-	-	-	-
Proposed donations	-	-	-	-	-	-	(413)	413	-	-	-	-
Balance at 31 December 2005	650,000	125,000	216,667	307	50,672	(5,010)	116,766	89,403	123,813	592,618	255,580	1,623,198

The attached notes 1 to 33 form part of these consolidated financial statements.



1. CORPORATE INFORMATION

The parent company, Ahli United Bank B.S.C. (the Bank) was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree no. 16/2000. The Bank and its subsidiaries as detailed below (together known as the Group) are engaged in retail, commercial and investment banking business, global fund management and private banking services through 17 branches in Bahrain and through its subsidiaries in the State of Kuwait and the United Kingdom. It also operates in Bahrain, Egypt, Iraq and Qatar through its associates. The Bank operates under offshore and full commercial banking licenses issued by the Central Bank of Bahrain (formerly Bahrain Monetary Agency) under the current framework and has applied for a retail banking licence under the new integrated licensing framework of the Central Bank of Bahrain. The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

The consolidated financial statements for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of the directors on 19 February 2007.

2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (together known as the Group) as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All material intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired are included in the consolidated income statement from the date of acquisition.

The following are the Bank's principal subsidiaries:

Name	Country of incorporation	Percentage holding
Ahli United Bank (U.K.) PLC (AUBUK)	United Kingdom	100%
Bank of Kuwait and the Middle East K.S.C. (BKME)	State of Kuwait	75%
Kuwait and Middle East Financial Investment Co. K.S.C. (closed) (KMEFIC)	State of Kuwait	48%

3. ACCOUNTING POLICIES

3.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis as modified for the re-measurement at fair value of trading and available-for-sale financial assets and all derivatives. In addition, as more fully discussed below, assets and liabilities that are fair value hedged are adjusted to the extent of the fair value of the risk being hedged. The consolidated financial statements are presented in US Dollars which is the Bank's functional currency, and all values are rounded to the nearest thousand (US Dollar thousand) except where otherwise indicated.

Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

New standards and interpretations issued but not yet effective

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) but are not yet effective:



3. ACCOUNTING POLICIES (continued)

3.1 Basis of preparation (continued)

New standards and interpretations issued but not yet effective

- IFRS 7 Financial Instruments: Disclosures and consequent amendments to IAS 1- Capital Disclosures (effective for financial year commencing 1 January 2007)
- IFRS 8 Operating Segments (effective for financial year commencing 1 January 2009)
- IFRIC Interpretation 8 Scope of IFRS 2 (effective for financial year commencing 1 January 2007)
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective for financial year commencing 1 January 2007)
- IFRIC Interpretation 11 IFRS 2 - Group and Treasury Share Transactions (effective for financial year commencing 1 March 2007)

Additional disclosures will be made in the financial statements when these standards and interpretations become effective.

3.2 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

Judgements are made in the classification of available-for-sale, held-for-trading or held-to-maturity investments based on management's intention at acquisition of the financial asset as well as the allocation of goodwill to cash generating units. As more fully described below, judgements are also made in determination of the objective evidence that a financial asset is impaired.

Impairment losses on loans and advances and non-trading investments

Estimates are made regarding the amount and timing of future cash flows when measuring the level of provisions required for non-performing loans, portfolios of performing loans with similar risk characteristics where the risk of default has increased, as well as provisions for non-trading investments.

Fair value of financial instruments

Estimates are also made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such provisions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3.3 Summary of significant accounting policies

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

(1) Investments in associates

Associated companies are companies in which the Group exerts significant influence normally represented by an interest of between 20% and 50% in the voting capital. Investments in associated companies are accounted for using the equity method.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(2) Foreign currency translation

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.



3. ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(2) Foreign currency translation (continued)

(i) Transactions and balances (continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to "Trading income - net" in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary available-for-sale items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined and the differences are included in equity as part of the fair value adjustment of the respective items, unless these items are part of an effective hedging strategy.

(ii) Group companies

Assets and liabilities of foreign subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the period. Any exchange differences arising on translation are taken to foreign currency translation adjustments forming part of equity.

(3) Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value of consideration given, including acquisition costs associated with the investment. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest method and taken to interest income.

(i) Date of recognition

All 'regular way' purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. 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.

(ii) Trading securities

A financial asset is classified as 'held-for-trading' if it is acquired or incurred principally for the purpose of generating profit from short term fluctuations in price. Trading securities are initially recognised at cost, being the fair value of the consideration given and are subsequently measured at fair value. Resultant unrealised gains and losses arising from changes in fair value are included in the consolidated income statement.

(iii) Held-to-maturity

Non-trading investments with fixed or determinable payments and fixed maturities and which the Group has the intention and ability to hold to maturity are classified as held-to-maturity. After initial measurement, these are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The losses arising from impairment of such investments are recognised in the consolidated income statement line "Provision for impairment of non-trading investments and other assets".

(iv) Loans and advances

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. This accounting policy relates to the balance sheet captions "Deposits from banks and other financial institutions" and "Loans and advances". After initial measurement, the loans and advances are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for impairment. The losses arising from impairment of such loans and advances are recognised in the income statement in "Provision for loan losses". 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 amortization is included in "Interest income" in the consolidated income statement.



3. ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(3) Financial instruments (continued)

(v) Available-for-sale

Non-trading investments that are not classified as held-to-maturity, held-for-trading or loans and advances are classified as available-for-sale. After initial recognition, available-for-sale investments are remeasured at fair value. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment provision. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement for the period.

Any gain or loss arising from a change in fair value of available-for-sale investments, which is part of an effective hedging relationship, is recognised directly in the consolidated income statement to the extent of the changes in fair value being hedged.

(vi) Embedded derivatives

Certain derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried as held for trading or designated as available-for-sale. The embedded derivatives are, where material, separated from the host contract and carried at fair value with the changes in fair value recognised in the consolidated income statement.

(vii) Deposits

These financial liabilities are carried at amortised cost, less amounts repaid.

(4) Derecognition of financial assets and financial liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(5) Repurchase and resale agreements

Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and the consideration received is classified as 'Deposits from banks and other financial institutions'. Conversely, securities purchased under similar commitments to resell are not recognised on the consolidated balance sheet and the consideration paid is recorded in 'Deposits with banks and other financial institutions'.

(6) Determination of fair value

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid and ask prices respectively at the close of business on the balance sheet date.

The fair value of liabilities with a demand feature is the amount payable on demand.

The fair value of interest-bearing financial assets and liabilities that are not quoted in an active market and are not payable on demand is determined by a discounted cash flow model using the current market interest rates for financial instruments with similar terms and risk characteristics.



3. ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(6) Determination of fair value (continued)

For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially similar, or is determined using net present valuation techniques.

The fair value of unquoted derivatives is determined either by discounted cash flows or option-pricing models.

(7) Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is any objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset or a group of financial assets is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the consolidated income statement.

In addition to specific provisions against individually significant financial assets, the Group also makes collective impairment provisions on groups of financial assets, which although not identified as requiring a specific provision, have a greater risk of default than the risk at initial recognition. Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated. Factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows are taken into consideration and the amount of the provision is based on the historical loss pattern within each group, adjusted to reflect current economic changes.

(8) Hedge accounting

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. Derivatives are stated at fair value. Derivatives with positive market values are included in "other assets" and derivatives with negative market values are included in "other liabilities" in the consolidated balance sheet.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, management objectives and strategy for undertaking the hedge. The methods that will be used to assess the effectiveness of the hedging relationship form part of the Group's documentation.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at each reporting date. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

For the purposes of hedge accounting, hedges are classified into two categories: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (ii) cash flow hedges which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated income statement. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated income statement.



3. ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(8) Hedge accounting (continued)

(i) Fair value hedges (continued)

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the value at which it would have been carried without being hedged is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

(ii) Cash flow hedges

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in equity. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated income statement in the period in which the hedged transaction impacts the consolidated income statement or included in the initial measurement of the related asset or liability.

For hedges which 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 consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated income statement for the period.

(9) Offsetting financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis.

(10) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

Interest income is recognised using the effective interest method, taking account of the principal outstanding and the rate applicable. Interest that is 90 days or more overdue is excluded from income. Notional interest is recognised on impaired loans and advances and other financial assets based on the rate used to discount future cash flows to their net present values.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

(ii) Fee and commission income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commission income are recognised when earned.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.



3. ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(11) Goodwill and other intangible assets

Goodwill acquired in a business combination is initially measured at cost being 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 acquired. Following initial recognition, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

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

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

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that an intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but are tested annually for impairment.

(12) Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation.

The cost of freehold land is not depreciated. Depreciation on buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Freehold buildings	15 to 30 years
Leasehold land and buildings	Over the lease period
Other premises and equipment	2 to 5 years

(13) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserves, plus those deposits with banks and other financial institutions and treasury bills with an original maturity of three months or less.

(14) Provisions

Provisions are recognised when the Group has a present obligation arising from a past event, and costs to settle the obligation are both probable and able to be reliably estimated.



3. ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

(15) Employee benefits

Defined benefit pension plan

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of the scheme members.

Other defined benefit plan

In accordance with the Bahrain Labour Law, the Bank provides for end of service benefits for its non-Bahraini employees. The provision is based on accumulated periods of service and latest salary.

Defined contribution plans

For defined contribution plans, the Group makes contributions to publicly administered pension insurance plans. 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.

(16) Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

Deferred taxation is provided using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

(17) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not incorporated in the consolidated balance sheet.

(18) Minority interest

Minority interest represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's shareholders.

(19) Redeemable preference shares

Preference shares which carry a mandatory coupon, and are redeemable at a fixed future date, are recognised as liabilities in the balance sheet, at amortised cost. The corresponding dividends on those shares are charged as interest expense in the consolidated income statement.

(20) Dividend on ordinary shares

Dividend on ordinary shares are recognised as liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the year that are approved after the balance sheet date are shown as an appropriation and reported in the consolidated statement of changes in equity, as an event after the balance sheet date.

(21) Employees' share purchase plan

The Group operates an employees' share purchase plan for certain eligible employees. The difference between the issue price and the fair value of the shares at the grant date is amortised over the vesting period in the consolidated income statement.


4. FEES AND COMMISSION - NET

	2006 US\$ '000	2005 US\$ '000
Fees and commission income	122,842	81,335
Fees and commission expense	(6,464)	(5,735)
	116,378	75,600

5. TRADING INCOME

	2006 US\$ '000	2005 US\$ '000
Foreign exchange	14,022	9,485
Gain on trading securities	2,985	5,863
Others	244	642
	17,251	15,990

6. CASH AND BALANCES WITH CENTRAL BANKS

	2006 US\$ '000	2005 US\$ '000
Cash and balances with central banks, excluding mandatory reserve deposits	88,784	99,980
Mandatory reserve deposits with central banks	48,899	40,595
	137,683	140,575

Mandatory reserve deposits are not available for use in the day-to-day operations.

7. LOANS AND ADVANCES

The composition of the loans and advances portfolio, net of provisions, was as follows:

	2006		2005	
	US\$ '000	%	US\$ '000	%
Industry sector				
Consumer/Personal	2,887,755	32.0	2,554,025	41.8
Trading and manufacturing	2,118,440	23.5	1,255,020	20.6
Real estate	1,881,636	20.9	797,276	13.1
Banks and other financial institutions	680,735	7.6	519,598	8.5
Construction	352,750	3.9	428,205	7.0
Government/public sector	328,926	3.7	86,029	1.4
Others	757,581	8.4	462,350	7.6
	9,007,823	100.0	6,102,503	100.0
(Less): Provisions	(134,466)	(1.5)	(116,107)	(1.9)
	8,873,357	98.5	5,986,396	98.1



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

31 December 2006

7. LOANS AND ADVANCES (continued)

Geographic region	2006		2005	
	US\$ '000	%	US\$ '000	%
GCC countries	6,678,767	74.1	4,697,531	77.0
United Kingdom	1,250,580	13.9	841,374	13.8
Europe (excluding United Kingdom)	853,276	9.5	238,699	3.9
United States of America	20,395	0.2	30,201	0.5
Asia (excluding GCC countries)	97,865	1.1	139,704	2.3
Others	106,940	1.2	154,994	2.5
	9,007,823	100.0	6,102,503	100.0
(Less): Provisions	(134,466)	(1.5)	(116,107)	(1.9)
	8,873,357	98.5	5,986,396	98.1

GCC countries comprise the members of the Gulf Co-operation Council being Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates.

The age analysis of non-performing loans was as follows:

	2006			2005	
	3 months to 1 year US\$ '000	1 - 3 years US\$ '000	Over 3 years US\$ '000	Total US\$ '000	Total US\$ '000
Gross non-performing loans	61,130	16,351	32,054	109,535	121,579
(Less): Provisions				(91,723)	(94,760)
(Less): Interest in suspense				(12,846)	(9,661)
Net outstanding				4,966	17,158

During the year ended 31 December 2006, the Group restructured credit facilities amounting to US\$ 15 million (2005: US\$ 25 million). The restructured facilities have not had a material impact on the current year's earnings and are not expected to have a material adverse effect on future earnings.

The movements in provisions during the year were as follows:

	2006 US\$ '000	2005 US\$ '000
At 1 January	116,107	134,311
Add/(Less):		
Amounts written off during the year	(6,200)	(39,497)
Charge for the year	46,405	30,307
Recoveries during the year	(28,833)	(13,150)
Interest suspended during the year (net)	713	6,713
Exchange rate adjustments/ other	6,274	(2,577)
At 31 December	134,466	116,107


8. NON-TRADING INVESTMENTS

	2006			2005
	Held-to-maturity US\$'000	Available-for-sale US\$'000	Total US\$'000	Total US\$'000
Quoted investments				
GCC and US government bonds and debt securities	-	581,911	581,911	268,964
Other government bonds and debt securities	-	90,445	90,445	157,656
Floating rate notes and certificates of deposits:				
- issued by banks and other financial institutions	-	774,847	774,847	726,766
- issued by corporate bodies	-	976,675	976,675	586,845
Equity shares	-	393,251	393,251	222,389
Other investments	-	1,505	1,505	1,424
	-	2,818,634	2,818,634	1,964,044
Unquoted investments				
GCC and US government bonds and debt securities	181,155	-	181,155	337,117
Other government bonds and debt securities	-	81,300	81,300	59,728
Floating rate notes and certificates of deposits:				
- issued by banks and other financial institutions	-	135,427	135,427	48,414
- issued by corporate bodies	-	16,544	16,544	15,541
Equity shares at cost	-	38,451	38,451	41,518
Funds at net asset value	-	36,081	36,081	70,374
Other investments	-	48,147	48,147	15,597
	181,155	355,950	537,105	588,289
Total	181,155	3,174,584	3,355,739	2,552,333
(Less): Provision for impairment	-	(16,637)	(16,637)	(17,793)
	181,155	3,157,947	3,339,102	2,534,540
31 December 2005	394,422	2,140,118	2,534,540	

The movements in impairment provision during the year were as follows:

	2006 US\$ '000	2005 US\$ '000
At 1 January	17,793	18,125
Add/(Less):		
Arising on acquisition of a subsidiary	-	1,071
Charge for the year	3,262	7,601
Amounts written off during the year	(4,634)	(8,950)
Exchange rate adjustments other	216	(54)
At 31 December	16,637	17,793

Non-trading investments include US\$ 571 million (2005: US\$ 540 million) investments sold under agreement to repurchase against which the Group had borrowings of US\$ 486 million (2005: US\$ 535 million), included under "Deposits from banks and other financial institutions".



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Contd.)

31 December 2006

9. INVESTMENT IN ASSOCIATES

The principal associates of the Group are:

Name	Country of incorporation	Percentage holding
Ahli Bank Q.S.C.	State of Qatar	40.0%
Commercial Bank of Iraq P.S.C.	Republic of Iraq	49.6%
Delta International Bank S.A.E.	Arab Republic of Egypt	49.8%
Future Bank B.S.C.(c)	Kingdom of Bahrain	33.3%

During the year, the Group acquired 49.8% of the share capital of Delta International Bank S.A.E., a bank engaged in commercial and retail banking and headquartered in Cairo, Arab Republic of Egypt. The consideration paid for the Group's acquisition was US\$ 193 million.

The summarised financial information of the Group's principal associates as at and for the year ended 31 December were as follows:

	2006 US\$ '000	2005 US\$ '000
Assets	4,478,353	2,264,769
Liabilities	3,849,603	1,806,583
Revenues	158,587	83,560
Net profit for the year	84,542	53,981

Until 7 August 2005, the Bank had a 48% stake in the Bank of Kuwait and the Middle East K.S.C. (BKME) and proportionate results were reported using equity accounting under the head "Share of profit from associates". On 8 August 2005, the Bank increased its holding in the voting capital of BKME to 75% through the purchase of 138.2 million shares. As a result, from 8 August 2005 BKME became a subsidiary of the Group and has been consolidated from that date.

10. OTHER ASSETS

	2006 US\$ '000	2005 US\$ '000
Tax assets (note 16)	9,335	18,745
Positive fair value of derivatives	44,463	24,264
Interest receivables	136,753	108,663
Prepayments and trade receivables	78,405	79,581
	268,956	231,253

11. TERM DEBT

Included under term debt is a medium term syndicated deposit of US\$ 1,200 million maturing in October 2009. This facility bears an interest rate of three-months LIBOR plus 0.325% per annum. During the year, facilities totalling US\$ 624 million were repaid.

12. OTHER LIABILITIES

	2006 US\$ '000	2005 US\$ '000
Accruals	126,839	120,946
Negative fair value of derivatives	5,803	29,692
Interest payable	183,659	119,127
Other payables	123,478	70,025
	439,779	339,790



13. SUBORDINATED LIABILITIES

These borrowings are subordinated to the claims of all other creditors of the respective banks.

	2006 US\$ '000	2005 US\$ '000
(a) Ahli United Bank B.S.C.		
• US Dollars – non-convertible portion (50%) of Class A Non-Cumulative Preference Shares carrying interest at 1.50% over twelve month LIBOR, repayable on 1 January 2015, with an issuer option to redeem after 1 January 2010 subject to three months notice	225,000	225,000
• US Dollars – interest at three-month LIBOR plus a margin of 0.95% up to 2010 and margin of 1.45% thereafter, repayable on 2 December 2015 with an issuer option to redeem after 2 December 2010 subject to one month notice	100,000	100,000
• Great Britain Pounds – interest at six-month LIBOR plus 1.00%, repayable 2012	39,235	34,495
• US Dollars- interest at six-month LIBOR plus a margin of 0.82%, repayable on 13 November 2016, convertible into ordinary shares at the holder's option at the rate of US\$ 1.24 per share between the third and sixth anniversary from the loan agreement dated 18 November	200,000	-
(b) Ahli United Bank (U.K.) PLC		
• US Dollars – interest at three-month LIBOR plus $\frac{3}{4}\%$, repayable 2007	32,775	32,775
• Great Britain Pounds - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable 2006	-	12,123
• Great Britain Pounds - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable 2007	2,149	1,885
• US Dollars – interest at three-month LIBOR plus $\frac{3}{4}\%$, repayable 2006	-	9,938
• US Dollars – interest at three-month LIBOR plus $\frac{3}{4}\%$, repayable 2007	1,546	1,546
• Great Britain Pounds - interest at six-month LIBOR plus $\frac{3}{4}\%$, repayable at 5 years and one day notice	13,304	11,673
• US Dollars - interest at three-month LIBOR plus $\frac{3}{4}\%$, repayable at 5 years and one day notice	9,568	9,568
	623,577	439,003

14. SHARE CAPITAL

	2006 US\$ '000	2005 US\$ '000
(a) Authorised :		
• Ordinary Share Capital 4,000 million shares of US\$ 0.25 each	1,000,000	1,000,000
• Preference Share Capital 1,000 million Class A Preference Shares of US\$ 0.25 each	250,000	250,000
250 million Class B Preference Shares of US\$ 0.25 each	62,500	62,500

**14. SHARE CAPITAL (continued)**

	2006 US\$ '000	2005 US\$ '000
(b) Issued and fully paid:		
• Ordinary Share Capital 2,730 million shares of US\$ 0.25 each (2005: 2,600 million shares of US\$ 0.25 each). During the year, the Bank issued 130 million shares of US\$ 0.25 each as bonus issue.	682,000	650,000
• Preference Share Capital 1,000 million Class A Preference Shares of US\$ 0.25 each (50% convertible portion)	125,000	125,000
• 95.8 million fully convertible Class B Preference Shares of US\$ 0.25 each	23,941	-

The Class A preference shares represent "Non-Cumulative Partly Convertible Preference Shares" issued on 1 January 2005 at an issue price of US\$ 0.45 per share.

50% of the Class A preference shares are mandatorily convertible on 1 January 2008 into an equal number of ordinary shares, which will result in the issuance of 500 million new ordinary shares (adjusted for any bonus share issues) at US\$ 0.45 per share. The remaining 50% of the Class A preference shares are redeemable in cash on 1 January 2015, or at an earlier date after 1 January 2010 if exercised by the Bank, at US\$ 0.45 per share. The Class A preference shares carry a dividend at a rate equal to 1.50% over twelve-month US Dollar LIBOR, payable annually. The payment of dividends on preference shares is subject to recommendation by the Board of Directors and approval by the General Assembly of ordinary shareholders.

The Class B preference shares represent "Non-Cumulative Fully Convertible Preference Shares" authorised for issuance to the employees of the Bank under an Employees' Share Purchase Plan in one or more tranches over a five-year period commencing 1 January 2005 at prices set by the Board of Directors, subject to regulatory consents.

During the year, the Bank issued the first tranche of 95.8 million Class B shares at a price of US\$ 0.45 per share, mandatorily convertible into an equal number of ordinary shares (adjusted for bonus share issues) on the third anniversary from the grant date. The fair value of the first tranche, estimated as of the grant date was US\$ 0.50 per share, determined using a weighted average of price multiples of banks listed on the major GCC stock exchanges and the Bank's forecasted diluted earnings per share. The difference between issue price and fair value is amortised over the vesting period and included under "Staff Costs" in the consolidated income statement.

After conversion of both Class A and Class B preference shares, the resultant ordinary shares will rank pari-passu with the ordinary shares in issue. The holders of Class A preference shares (not subject to conversion) would receive preferential treatment over holders of ordinary shares and Class B preference shares, but shall be subordinated to all other liabilities of the Bank.

The redeemable portion of the Class A preference shares amounting to US\$ 225 million is included in subordinated liabilities. The mandatorily convertible portion of the Class A preference shares is included in equity.

15. RESERVES**a) Share premium**

The share premium arising on issue of ordinary and preference shares are not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

b) Capital reserve

As required by the Bahrain Commercial Companies Law, any profit on the sale of treasury stock is transferred to a capital reserve. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

c) Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the consolidated net profit for the year attributable to the Bank's equity shareholders has been transferred to a statutory reserve. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law.


15. RESERVES (continued)
d) Proposed dividend

The directors have proposed the following appropriations subject to formal approval at the Annual General Meeting.

- Cash dividend of US\$ 28,575 thousand (2005: US\$ 20,745 thousand) on both the convertible (50%) and non-convertible (50%) portions of the Class A preference shares being US cents 2.9 per preference share (2005: US cents 2.1 per share).
- A cash dividend of US\$ 926 thousand (2005: Nil) on Class B preference shares being US cents 1.0 per preference share (2005: Nil).
- A cash dividend of US\$ 95,550 on ordinary shares (2005: US\$ 78,000 thousand) being US cents 3.5 per share and a 10% bonus share issue (2005: US cents 3.0 per share and a 5% bonus share issue).

e) Cumulative changes in fair value

	2006 US\$ '000	2005 US\$ '000
Available for sale investments		
At 1 January	127,969	72,250
Add/(Less):		
Realised during the year	2,494	6,034
Changes in fair values during the year	15,293	38,393
Share of changes in fair values of available for sale investments of associates	(9,667)	11,292
At 31 December	136,089	127,969
Cash flow hedges		
At 1 January	(4,156)	(790)
Add/(Less):		
Transferred to income statement	7,714	(8,654)
Changes in fair values during the year	(2,140)	5,288
At 31 December	1,418	(4,156)
Total	137,507	123,813

16. TAXATION

	2006 US\$ '000	2005 US\$ '000
Balance sheet (note 10):		
- Current tax asset	6,929	16,221
- Deferred tax asset	2,406	2,524
	9,335	18,745
Income statement:		
- Current tax expense on foreign operations	3,125	5,862
- Deferred tax expense (credit) on foreign operations	118	(132)
	3,243	5,730

In view of the operations of the Group being subject to various tax jurisdictions and regulations and the amount of taxation not being material, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates.



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17. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less Class A and B preference share dividends, by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to the Bank's ordinary equity shareholders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of Class A and Class B preference shares into ordinary shares.

Convertible subordinated debt issued during the year is antidilutive for the period and therefore ignored in calculating diluted earnings per share.

The following reflects the income and share data used in basic and diluted earnings per share computations:

	2006	2005
	US\$ '000	US\$ '000
Net profit attributable to Bank's ordinary equity shareholders adjusted for the proposed Class A and B preference shares' dividends (convertible portion)	192,266	154,492
Class A preference share dividend	14,288	10,373
Class B preference share dividend	926	-
Net profit attributable to Bank's equity shareholders	207,480	164,865
Weighted average number of ordinary shares for basic earnings per share (million)	2,730	2,730
Effect of dilution – Class A preference shares (million)	525	525
Effect of dilution – Class B preference shares (million)	101	101
Weighted average number of ordinary shares for diluted earnings per share (million)	3,356	3,356

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	2006	2005
	US\$ '000	US\$ '000
Cash and balances with central banks, excluding mandatory reserve deposits (note 6)	88,784	99,980
Deposits with banks and other financial institutions – with an original maturity of three months or less	4,278,424	2,007,260
	4,367,208	2,107,240



19. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies of which they are principal owners in the ordinary course of business at arms length. All the loans and advances to related parties are performing and are free of any provision for possible loan losses. The Group has sufficient unutilised lines of credit as a back up for related party deposits.

The income, expenses and the year end balances in respect of related parties included in the consolidated financial statements were as follows:

	2006			2005	
	US\$ '000			US\$ '000	
	Major shareholders	Associates	Directors and senior management	Total	Total
Interest income	6,085	3,029	5,240	14,354	4,262
Interest expense	51,304	66	2,233	53,603	24,684
Fees and commission	-	1,746	-	1,746	1,577
Deposits with banks and other financial institutions	23	65,615	-	65,638	2,226
Loans and advances	76,608	-	72,226	148,834	115,005
Deposits from banks and other financial institutions	-	199,154	-	199,154	8,373
Customers' deposits ^(a)	2,518,406	-	72,168	2,590,574	619,260
Subordinated liabilities	68,677	-	-	68,677	63,067
Commitments and contingent liabilities (notional)	-	29	11,983	12,012	5,623
Derivatives (notional)	-	176,901	-	176,901	176,183

^(a) Customers' deposits include deposits from GCC government-owned institutions totalling to US\$ 2,518 million (2005: US\$ 584 million).

The compensation of key management personnel of the Group included under staff costs was as follows:

	2006	2005
	US\$ '000	US\$ '000
Short term employee benefits	11,192	6,890
End of service benefits	913	211
Post employment benefits	150	74
Total benefits	12,255	7,175
Headcount	23	24

The compensation for 2006 includes the full year consolidation effect of BKME, which was previously equity accounted until 7 August 2005 (note 9).



20. EMPLOYEE BENEFITS

Defined benefits pension plan

AUBUK operates a funded defined benefits scheme for its employees who joined prior to 1 March 2001. The assets of the pension scheme are held independently of the Group's assets in a separate trustee administered fund.

The pension scheme is valued by independent actuaries periodically using the projected unit cost method. The latest actuarial valuation of AUBUK's pension scheme, carried out on 31 December 2006 revealed a deficit in the pension scheme's assets over its obligations. The principal assumptions used in the actuarial valuation were an expected investment return of 6.70% per annum (2005: 6.60% per annum) a future rate of salary progression of 2.40% per annum (2005: 2.30% per annum) future pension increases of 2.90% (2005: 2.80% per annum) and discount rate of 5.30% (2005: 5.00% per annum).

The overall expected rate of return on plan assets is determined based on best estimates of the fair value of the plan assets over the period of the plan.

The charge recognised in the consolidated income statement was as follows:

	2006	2005
	US\$ '000	US\$ '000
Current service cost	1,660	1,900
Interest cost	7,201	6,135
(Less): Expected return on plan assets	(7,160)	(5,297)
Net actuarial losses recognised in the year	1,193	738
	2,894	3,476

The amounts recognised in the consolidated balance sheet were as follow:

	2006	2005
	US\$ '000	US\$ '000
Present value of scheme's obligations	149,012	126,380
(Less): Fair value of plan assets	(118,300)	(94,600)
	30,712	31,780
(Less): Unrecognised net actuarial losses	(27,327)	(28,337)
Liability in the balance sheet	3,385	3,443

The actual returns on plan assets were US\$ 8,775 thousand (2005: US\$ 15,484 thousand)

The movement in the liability recognised in the consolidated balance sheet during the year was as follows:

	2006	2005
	US\$ '000	US\$ '000
At 1 January	3,443	3,451
Add/(Less):		
Total expenses as stated above	2,894	3,476
Contributions by the Group	(3,434)	(3,000)
Exchange rate and other adjustments	482	(484)
At 31 December	3,385	3,443


20. EMPLOYEE BENEFITS (Continued)
Defined benefits pension plan (Continued)

The changes in the present value of the scheme's obligation were as follow:

	2006	2005
	US\$ '000	US\$ '000
At 1 January	126,380	114,722
Add/(Less):		
Interest cost	7,201	6,135
Current service cost	1,660	1,900
Actuarial (gains) losses	(2,164)	17,971
Benefits paid	(1,784)	(1,861)
Exchange rate and other adjustments	17,719	(12,487)
At 31 December	149,012	126,380

The changes in the fair value of the plan assets were as follows:

	2006	2005
	US\$ '000	US\$ '000
At 1 January	94,600	87,489
Add/(Less):		
Expected return	7,160	5,297
Contributions by the Group	3,434	3,000
Actuarial gains	1,615	10,187
Benefits paid	(1,784)	(1,861)
Exchange rate and other adjustments	13,275	(9,512)
At 31 December	118,300	94,600

The major categories of plan assets as a percentage of the fair value of the total plan assets were as follow:

	2006%	2005%
Equities	69	69
Government bonds	14	17
Corporate bonds	16	14
Others	1	0
Total	100	100

All investments in the plan assets are investment grade and traded in an active market.

The present value of scheme's obligations, the fair value of plan assets and the deficit arising thereon along with the effect of differences between the previous actuarial assumptions and what has actually occurred (experience adjustments) for the years ended 31 December have been presented below:

	2006	2005	2004	2003	2002
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Present value of scheme's obligations	149,012	126,380	114,722	86,223	88,602
Fair value of plan assets	(118,300)	(94,600)	(87,489)	(71,656)	(57,618)
Deficit	30,712	31,780	27,233	14,567	30,984
Experience adjustments on:					
Plan liabilities	2,154	4,868	2,270	(86)	10,138
Plan assets	(1,615)	(10,187)	(3,374)	(5,316)	15,591



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20. EMPLOYEE BENEFITS (continued)

Defined benefits pension plan (continued)

Other defined benefit plans

The charge to the consolidated income statement on account of end of service benefits for the year amounted to US\$ 2,894 thousand (2005: US\$ 2,067 thousand). There are no material differences between the carrying amount of the provision for end of service benefits and the amount arising from an actuarial computation thereof.

Based on best available estimates, the Group expects to contribute US\$ 2.4 million (2005: US\$ 3.2 million) to its defined benefit plans for the year ending 31 December 2007.

Defined contribution plans

The Group contributed US\$ 358 thousand (2005: US\$ 2,013 thousand) during the year towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

21. MANAGED FUNDS

Funds administered on behalf of customers to which the Group does not have legal title are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2006 was US\$ 6,065 million (2005: US\$ 4,477 million).

22. DERIVATIVES

In the ordinary course of business the Group 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.

The table below shows the net fair values of derivative financial instruments 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.

	Net fair value	Notional	Within 3 months	3 - 12 months	1 - 5 years	Over 5 years
31 December 2006:	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<i>Derivatives held for trading:</i>						
Interest rate swaps	3,663	3,651,363	269,002	681,850	2,162,508	538,003
Forward rate agreements	3,907	2,983,126	286,768	226,691	2,469,667	-
Options	611	241,646	27,360	-	-	214,286
Interest rate futures	(111)	1,483,522	329,288	1,154,234	-	-
Credit derivatives	354	116,584	-	16,584	100,000	-
<i>Derivatives held as fair value hedges:</i>						
Interest rate swaps	15,259	1,682,947	171,804	140,550	829,175	541,418
Currency swaps	-	-	-	-	-	-
Options	13,559	93,510	-	7,858	85,652	-
<i>Derivatives held as cash flow hedges:</i>						
Interest rate swaps	1,418	887,698	-	-	224,698	663,000
	38,660	11,140,396	1,084,222	2,227,767	5,871,700	1,956,707

**22. DERIVATIVES (continued)**

	Net fair value US\$ '000	Notional US\$ '000	Within 3 months US\$ '000	3 - 12 months US\$ '000	1 - 5 years US\$ '000	Over 5 years US\$ '000
31 December 2005:						
<i>Derivatives held for trading:</i>						
Interest rate swaps	2,608	2,755,914	1,031,651	985,787	550,082	188,394
Forward rate agreements	(1,522)	1,865,372	1,538,434	325,348	1,590	-
Options	125	3,240,164	3,226,394	13,770	-	-
Interest rate futures	(2,299)	1,447,622	459,632	987,990	-	-
Credit derivatives	1,714	78,000	-	5,000	53,000	20,000
<i>Derivatives held as fair value hedges:</i>						
Interest rate swaps	1,276	802,322	90,092	54,537	487,651	170,042
Currency swaps	(9)	254,991	254,991	-	-	-
Options	(3,165)	750,000	-	-	-	750,000
<i>Derivatives held as cash flow hedges:</i>						
Interest rate swaps	(4,156)	633,525	-	10,000	287,725	335,800
	(5,428)	11,827,910	6,601,194	2,382,432	1,380,048	1,464,236

Derivative product types

Forwards and futures 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. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

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, fixed and floating interest payments as well as notional 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.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.



22. DERIVATIVES (continued)

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency, interest rate and credit 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 forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps, forward rate agreements and interest rate futures to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. 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.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps and futures to hedge net interest rate exposures. Since hedging of net positions does not qualify for special hedge accounting, related derivatives are accounted for the same way as trading instruments.

23. COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

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

Standby letters of credit, guarantees and acceptances (standbys) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standbys would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following commitments:

	2006	2005
	US\$ '000	US\$ '000
Commitments on behalf of customers:		
Guarantees	903,074	826,543
Acceptances	35,962	38,749
Letters of credit	342,764	227,957
	1,281,800	1,093,249
Irrevocable commitments:		
Undrawn irrevocable loan commitments	1,754,641	557,900



23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Credit-related commitments (continued)

The concentration of commitments on behalf of customers by types of customers is as follows:

	2006			2005
	Bahrain US\$ '000	Foreign US\$ '000	Total US\$ '000	Total US\$ '000
Industry sector				
Banks and other financial institutions	137,071	130,711	267,782	364,259
Corporates	320,524	616,744	937,268	555,193
Others	69,855	6,895	76,750	173,797
	527,450	754,350	1,281,800	1,093,249

The Group's commitments in respect of non-cancellable operating leases were as follows:

	2006 US\$ '000	2005 US\$ '000
Expiring within one year	-	121
Expiring within one to five years	2,382	1,900
Expiring over five years	2,352	14
	4,734	2,035

24. SEGMENT INFORMATION

Primary segment information

For management purposes the Group is organised into three major business segments:

- Retail banking* - principally handling individual customers' deposits, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
- Corporate banking, treasury and investments* - principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers and providing money market, trading and treasury services, as well as management of the Group's funding.
- Private banking and wealth management* - principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

Goodwill acquired through business combinations with indefinite lives have been allocated to the cash generating units of the acquired entities for impairment testing purposes. Impairment testing was carried out by comparing the recoverable amounts of the cash generating units with their carrying values and no impairment was identified.

Substantially all of the goodwill relates to the Group's acquisition of its interest in the Bank of Kuwait and the Middle East K.S.C.



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24. SEGMENT INFORMATION (continued)

Primary segment information (continued)

Segment information for the year ended **31 December 2006** is as follows:

	Retail banking US\$ '000	Corporate banking, treasury and investments US\$ '000	Private banking and wealth management US\$ '000	Total US\$ '000
Operating income	169,305	240,394	54,870	464,569
	36.4%	51.8%	11.8%	100.0%
Share of profit of associates				28,288
Operating income before provisions				492,857
Segment result	89,844	153,427	25,001	268,272
	33.5%	57.2%	9.3%	100.0%
Share of profit from associates				28,288
(Less): Provisions - net				(35,494)
(Less): Income tax expense				(3,243)
(Less): Net profit attributable to minority interest				(50,343)
Net profit attributable to the Bank's equity shareholders				207,480
Other Information				
Segment assets	2,895,715	16,063,938	813,783	19,773,436
Investment in associates				554,280
Unallocated assets				471,191
Total assets				20,798,907
Segment liabilities	1,457,621	15,511,115	1,577,210	18,545,946
Unallocated liabilities				426,289
Total liabilities				18,972,235


24. SEGMENT INFORMATION (continued)
Primary segment information (continued)

 Segment information for the year ended **31 December 2005** is as follows:

	Retail banking US\$ '000	Corporate banking, treasury and investments US\$ '000	Private banking and wealth management US\$ '000	Total US\$ '000
Operating income	93,862	176,677	28,083	298,622
	31.4%	59.2%	9.4%	100.0%
Share of profit of associates				60,236
Operating income before provisions				358,858
Segment result	55,722	99,523	11,463	166,708
	33.4%	59.7%	6.9%	100.0%
Share of profit from associates				60,236
(Less): Provisions - net				(31,438)
(Less): Tax expense				(5,730)
(Less): Minority interest				(24,911)
Net profit attributable to the Bank's shareholders				164,865
Other Information				
Segment assets	1,846,725	10,268,990	610,376	12,726,091
Investment in associates				351,012
Unallocated assets				795,126
Total assets				13,872,229
Segment liabilities	1,527,851	8,820,946	1,560,444	11,909,241
Unallocated liabilities				339,790
Total liabilities				12,249,031

**24. SEGMENT INFORMATION (continued)****Secondary segment information**

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: the Gulf Co-operation Council (Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and United Arab Emirates), designated as regional, and the remainder (Europe, U.S.A., Asia and the rest of the world), is designated as international. The following table shows the distribution of the Group's operating income and total assets by geographical segment:

	Regional		International		Total	
	2006 US\$ '000	2005 US\$ '000	2006 US\$ '000	2005 US\$ '000	2006 US\$ '000	2005 US\$ '000
Operating income	391,538	258,427	101,319	100,431	492,857	358,858
	79.4%	72.0%	20.6%	28.0%	100.0%	100.0%
Total assets	12,346,496	8,520,478	8,452,411	5,351,751	20,798,907	13,872,229
	59.4%	61.4%	40.6%	38.6%	100.0%	100.0%

25. CREDIT RISK

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

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

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security, when appropriate.

Details of the composition of the loans and advances are set out in note 7.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and commitments on behalf of customers are set out in note 26.



26. CONCENTRATION ANALYSIS

The distribution of assets, liabilities and commitments on behalf of customers by geographic region and industry sector was as follows:

	2006			2005		
	Assets US\$ '000	Liabilities US\$ '000	Commitments on behalf of customers US\$ '000	Assets US\$ '000	Liabilities US\$ '000	Commitments on behalf of customers US\$ '000
Geographic region:						
GCC countries	12,346,496	14,241,183	1,179,131	8,520,478	9,412,161	914,898
United Kingdom (U.K.)	3,328,820	551,871	15,072	2,677,025	1,019,361	15,187
Europe (excluding U.K.)	3,734,486	1,885,524	45,033	1,529,321	899,707	68,338
United States of America	506,393	420,847	36,603	360,320	44,049	29,452
Asia (excluding GCC)	333,944	1,583,171	2,545	282,370	243,659	895
Rest of the world	548,768	289,639	3,416	502,715	630,094	64,479
	20,798,907	18,972,235	1,281,800	13,872,229	12,249,031	1,093,249
Industry sector:						
Banks and other financial institutions	10,192,105	9,237,660	192,627	6,735,587	5,465,723	362,989
Consumer	3,298,410	2,927,322	30,184	1,605,882	2,171,716	3,547
Trading and manufacturing	2,456,253	1,432,849	500,857	1,814,962	1,045,671	382,923
Real estate	1,996,516	396,998	269,859	1,625,960	339,739	296,598
Government/public sector	799,127	2,630,732	75,155	619,147	1,318,624	10,000
Others	2,056,496	2,346,674	213,118	1,470,691	1,907,558	37,192
	20,798,907	18,972,235	1,281,800	13,872,229	12,249,031	1,093,249

27. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group 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 Board measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Assets and liabilities interest rate gaps are reviewed on a weekly basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board.



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27. INTEREST RATE RISK (continued)

The Group's interest sensitivity position based on contractual repricing arrangements or maturity, whichever is earlier, at **31 December 2006** was as follows:

	US\$ '000					
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	Total	Effective yield
ASSETS						
Cash and balances with central banks	-	-	-	137,683	137,683	-
Treasury bills and bonds	-	549,490	410,223	-	959,713	5.9%
Trading securities	-	-	-	75,829	75,829	-
Deposits with banks and other financial institutions	5,849,791	160,000	-	1,354	6,011,145	5.1%
Loans and advances	6,357,638	1,553,815	940,466	21,438	8,873,357	7.3%
Non-trading investments	1,422,752	279,946	1,140,639	495,765	3,339,102	5.0%
Investment in associates	-	-	-	554,280	554,280	-
Premises and equipment	-	-	-	146,501	146,501	-
Other assets	-	-	-	268,956	268,956	-
Goodwill and other intangible assets	-	-	-	432,341	432,341	-
Total	13,630,181	2,543,251	2,491,328	2,134,147	20,798,907	
LIABILITIES AND EQUITY						
Deposits from banks and other financial institutions	5,552,661	790,808	557,602	18,848	6,919,919	4.3%
Customers' deposits	7,577,103	606,733	186,039	669,591	9,039,466	4.5%
Certificates of deposit	244,451	162,546	-	-	406,997	5.6%
Term debt	1,542,497	-	-	-	1,542,497	5.4%
Other liabilities	-	-	-	439,779	439,779	-
Subordinated liabilities	284,342	339,235	-	-	623,577	6.3%
Equity	-	-	-	1,826,672	1,826,672	-
Total	15,201,054	1,899,322	743,641	2,954,890	20,798,907	
On-balance sheet gap	(1,570,873)	643,929	1,747,687			
Off-balance sheet gap	1,261,360	258,764	(1,520,124)			
Total interest rate sensitivity gap	(309,513)	902,693	227,563			
Cumulative interest rate sensitivity gap	(309,513)	593,180	820,743			


27. INTEREST RATE RISK (continued)

The Group's interest sensitivity position based on contractual repricing arrangements or maturity, whichever is earlier, at 31 December 2005 was as follows:

	US\$ '000					Effective yield
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	Total	
ASSETS						
Cash and balances with central banks	-	-	-	140,575	140,575	-
Treasury bills and bonds	138,081	844,769	-	-	982,850	4.2%
Trading securities	-	-	-	52,765	52,765	-
Deposits with banks and other financial institutions	2,971,465	52,500	-	5,000	3,028,965	4.3%
Loans and advances	4,535,262	383,519	1,039,542	28,073	5,986,396	6.7%
Non-trading investments	556,548	474,074	1,169,457	334,461	2,534,540	4.5%
Investment in associates	-	-	-	351,012	351,012	-
Premises and equipment	-	-	-	127,312	127,312	-
Other assets	-	-	-	231,253	231,253	-
Goodwill and other intangible assets	-	-	-	436,561	436,561	-
Total	8,201,356	1,754,862	2,208,999	1,707,012	13,872,229	

	US\$ '000					Effective yield
	Less than three months	Three months to one year	Over one year	Not exposed to interest rate risk	Total	
LIABILITIES AND EQUITY						
Deposits from banks and other financial institutions	3,263,568	469,762	-	63,833	3,797,136	4.4%
Customers' deposits	5,366,532	655,721	281,186	359,665	6,663,104	3.3%
Certificates of deposit	43,034	-	-	-	43,034	4.3%
Term debt	449,993	-	516,944	-	966,937	3.9%
Other liabilities	-	-	-	339,790	339,790	-
Subordinated liabilities	79,508	-	359,495	-	439,003	4.9%
Equity	-	-	-	1,623,198	1,623,198	-
Total	9,202,635	1,125,483	1,157,625	2,386,486	13,872,229	
On-balance sheet gap	(1,001,279)	629,379	1,051,374			
Off-balance sheet gap	(1,516,547)	(926,029)	2,442,576			
Total interest rate sensitivity gap	(2,517,826)	(296,650)	3,493,950			
Cumulative interest rate sensitivity gap	(2,517,826)	(2,814,476)	679,474			

The off-balance sheet gap represents the net notional amounts of off-balance sheet financial instruments, such as interest rate swaps, which are used to manage interest rate risk.



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28. CURRENCY RISK

The Group views United States Dollar as its functional and presentational currency and had the following significant net exposures denominated in foreign currencies as of 31 December:

	2006	2005
	US\$ '000	US\$ '000
	long (short)	long (short)
GCC currencies	649,812	438,512
Iraqi Dinar	38,725	34,109
Great Britain Pound	12,439	5,949
Euro	(6,414)	(3,296)
Egyptian Pound	200,015	59
Others	(8,943)	4,417

Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) through asset and liability management activities. It is the Group's policy to reduce its exposure to currency to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

29. EQUITY PRICE RISK

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Investment Committee.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments, with the exception of unquoted equity investments, approximate their carrying values. The fair value of unquoted equity investments cannot be determined with sufficient accuracy, as future cash flows are not determinable.

Non-trading investments include unquoted equity investments at cost of US\$ 38,451 thousand (2005: US\$ 41,518 thousand) with a net carrying value of US\$ 36,626 thousand (2005: US\$ 39,693 thousand) after impairment provision of US\$ 1,825 thousand (2005: US\$ 1,825 thousand).

Investments in associates include quoted equity investments of Ahli Bank Q.S.C. on the Doha stock exchange and Delta International Bank S.A.E. on the Cairo and Alexandria stock exchanges. As at 31 December 2006, the market value of these quoted investments is US\$ 571.8 million with a carrying value of US\$ 472.3 million.



31. LIQUIDITY RISK

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

The Group Asset and Liability Committee (GALCO) monitors the maturity profile on an overall basis with ongoing liquidity monitoring by the Group treasury.

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

	US\$ '000					
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Over five years	Total
ASSETS						
Cash and balances with central banks	137,683	-	-	-	-	137,683
Treasury bills and bonds	-	-	549,490	410,223	-	959,713
Trading securities	75,829	-	-	-	-	75,829
Deposits with banks and other financial institutions	5,575,656	275,489	160,000	-	-	6,011,145
Loans and advances	673,148	997,320	1,958,473	2,858,036	2,386,380	8,873,357
Non-trading investments	285,857	244,778	341,960	1,511,266	955,241	3,339,102
Investment in associates	-	-	-	-	554,280	554,280
Premises and equipment	-	-	-	71,663	74,838	146,501
Other assets	92,845	38,164	96,035	38,415	3,497	268,956
Goodwill and other intangible assets	-	-	-	43,624	388,717	432,341
Total	6,841,018	1,555,751	3,105,958	4,933,227	4,362,953	20,798,907
LIABILITIES						
Deposits with banks and other financial institutions	3,695,131	1,876,378	861,214	485,913	1,283	6,919,919
Customers' deposits	6,611,007	1,635,687	606,733	145,206	40,833	9,039,466
Certificates of deposit	125,137	119,315	162,545	-	-	406,997
Term debt	-	-	342,497	1,200,000	-	1,542,497
Other liabilities	237,835	74,769	67,952	54,988	4,235	439,779
Subordinated liabilities	3,695	-	32,775	3,549	583,558	623,577
Total	10,672,805	3,706,149	2,073,716	1,889,656	629,909	18,972,235
Net liquidity gap	(3,831,787)	(2,150,398)	1,032,242	3,043,571	3,733,044	1,826,672



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31. LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at **31 December 2005** is as follows:

	US\$ '000					Total
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Over five years	
Total assets	3,750,244	1,440,489	2,343,858	3,625,578	2,712,060	13,872,229
Total liabilities	6,860,739	2,369,330	1,263,352	1,290,718	464,892	12,249,031
Net liquidity gap	(3,110,495)	(928,841)	1,080,506	2,334,860	2,247,168	1,623,198

The above reflects the contractual maturities of assets and liabilities that have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and does not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of lines of credit.

32. CAPITAL ADEQUACY

The risk asset ratio, calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Group, is as follows:

	2006 US\$ '000	2005 US\$ '000
Capital base:		
Tier 1 capital	1,212,210	981,564
Tier 2 capital	750,462	533,957
Total capital base (a)	1,962,672	1,515,521
Risk weighted assets (b)	13,227,725	9,243,561
Capital adequacy (a/b * 100)	14.8%	16.4%
Minimum requirement	12.0%	12.0%

33. DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain and Financial Services Compensation Scheme, UK. The schemes apply to all non-bank private sector deposits subject to specific exclusions mainly relating to maximum deposit amounts, maximum total amount covered in one calendar year and maximum total amount of the Deposit Protection Board's financial resources. No up-front contribution is required to the schemes and no liability is due unless the Bank or any of its subsidiaries is unable to meet its depository obligations.



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