

Foresight prepares us for the future ahead.

His Highness Sheikh Khalifa Bin Zayed Bin Sultan Al Nahyan
President of the United Arab Emirates
Ruler of Abu Dhabi





His Highness Sheikh Maktoum Bin Rashid Al Maktoum
Vice-President and Prime Minister of the United Arab Emirates
Ruler of Dubai

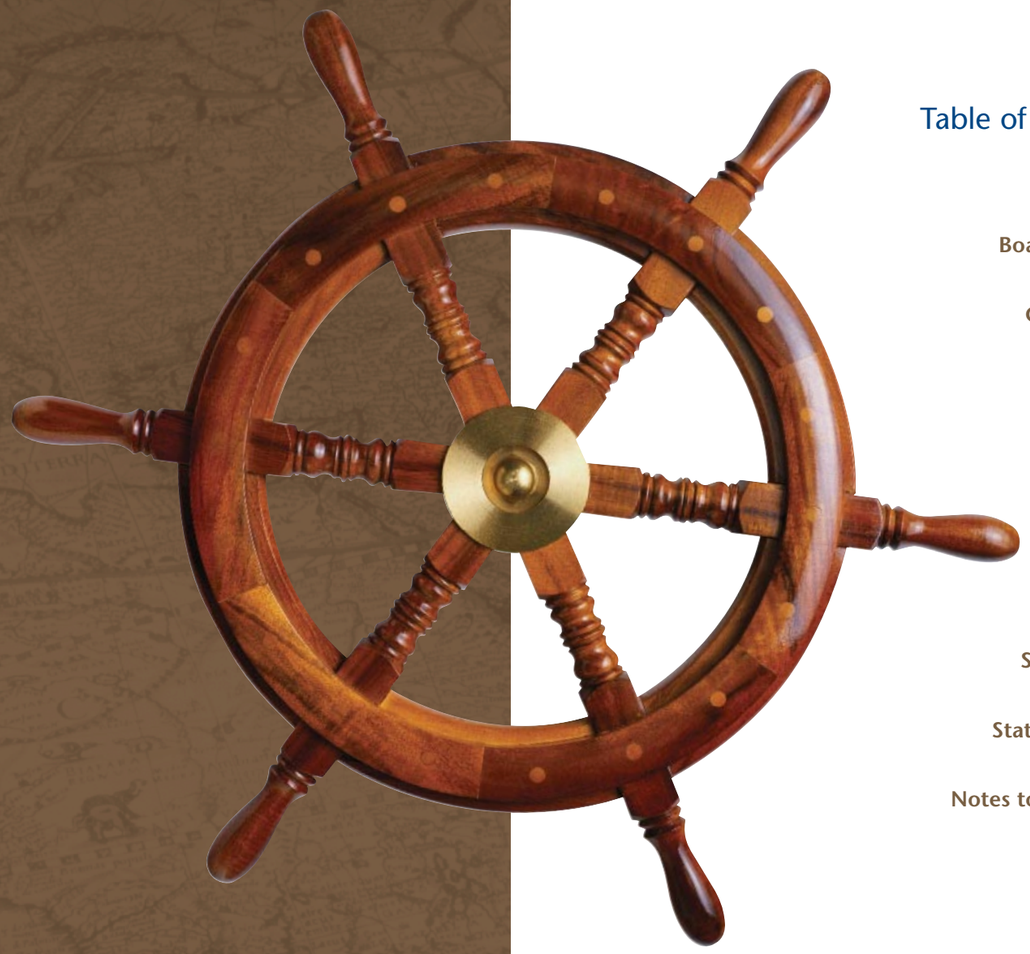


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Board of Directors



Abdullah Mohamed Saleh
Chairman



Eisa Bin Nasser Bin Abdulatif Al Serkal
Member



Humaid Bin Ali Al Owais
Deputy Chairman



Abdulla Mohamed Juma Al Nabouda
Member



Abdullah Hassan Al Rostamani
Member



Khalid Juma Al Majid
Member



Chairman's Message

In a year which saw a reversal of a pattern of falling interest rates I am pleased to be able to report that your bank has maintained its record of strong profit growth which has reached a record level of AED928 million in 2004, an increase of 15.3% over 2003. The key performance indicators of Return on Equity and Earnings per Share both showed significant improvement from 14.6% to 17.1% and from AED7.42 to AED8.56 respectively.

This performance is in line with the growth of 16.7% in Dubai's GDP recorded over the same period and supported by sustained Government spending. Our Government's strong commitment to growth and economic diversification continues to generate a high level of confidence in the local economy recognized by investors in Dubai and elsewhere in the Region. The construction sector has continued to be the main engine of economic growth for the third successive year and this in turn has resulted in growth across all sectors including the important tourism and manufacturing sectors.

I am pleased to report that each of our core businesses recorded an increased contribution to the bank's performance and although our in house investment activities retained its position as the highest earner for the bank, a 41% increase in our loans and advances book saw that asset class exceed our Investment activities for the first time.

The Corporate segment maintained its growth momentum by leveraging and enhancing its relationship management capabilities. In addition to providing loans to Government entities and businesses, the Bank actively solicited opportunities for underwriting and arranging project finance for large value projects both in the Public sector and Private sector. The Bank continues to diversify its asset portfolio with active participation in syndicated loans in GCC countries, Iran and India.

I am pleased to confirm the bank's commitment to provide superior services to our Retail customers through our expanding branch network in the UAE.

During the year we launched our "Suhail" Priority Banking initiative to complement the well established wealth management advisory services provided by "The Private Office", our Private Banking service provider. In October we were pleased to launch the GCC Balanced Fund our first in-house managed investment fund under the "Afaaq Investment Funds" umbrella. The GCC Balanced Fund will invest in regional markets utilizing a mix of Equities, Fixed Income Securities and Cash. I am delighted to record that we achieved a commendable second place in the Euromoney Private Banking survey that places us as the No.1 local bank for wealth management and financial services in the United Arab Emirates.



National Financial Services, the bank's wholly owned broking subsidiary, has produced encouraging results for 2004 and we expect this contribution to grow in the years ahead.

A newly incorporated property company "Aqarat LLC" was also formed recently to initially undertake property management services for the bank but whose activities will also include property development. Business will commence in 2005.

The bank once again underlines its commitment to the development of UAE nationals. A High Potential UAE National program was established as part of the effort to attract and retain young, talented Nationals. The Bank was a partner of the Arab Strategy Forum and a co-sponsor of the "Entrepreneurship and Business Plan Development Program" in continuation of the support and encouragement of UAE National business talent.

The Bank was proud to be selected as the "Best Bank in the UAE" and "Best Foreign Exchange Bank in the UAE" by the Global Finance magazine. These awards are a further testimony to the bank's continuing drive to be a world-class bank and to continuously meet and exceed customer needs and expectations. With the implementation of new Customer Relationship Management software in 2005 the Bank aims to be able to continue to deliver a superior quality of service to its customers.

I would wish to place on record my personal appreciation and thanks to our former Chairman Dr. Khalifa Mohamed Sulaiman who served on the Board since 1996 and from the year 2000, as Chairman. Throughout this time he has worked diligently for the Bank and its shareholders.

Last but by no means least, the year on year profit growth that the Bank has delivered is due in no small measure to the Management and staff and our customers. I wish to thank them for all their co-operation and support, without which this achievement would not have been possible.

Thank you.

Abdullah Mohamed Saleh



Report of the Directors

The Directors are pleased to submit their 41st Annual Report for the year ended 31 December 2004. The Annual Report and Accounts are presented in accordance with International Financial Reporting Standards.

At a recent meeting attended by His Highness Sheikh Mohammed Bin Rashid Al Maktoum, the Chairman, Dr. Khalifa Mohammed Sulaiman and certain other Directors left the Board.

At the aforesaid meeting, H.H. Sheikh Mohammed Bin Rashid Al Maktoum emphasised the importance of a modern management structure for the Bank. H.H. Sheikh Mohammed Bin Rashid Al Maktoum also expressed his full confidence in Mr. Abdulla Mohammed Saleh, and expressed his wish to appoint him as Chairman, in succession to Dr. Khalifa.

Accordingly, Mr. Abdulla Mohammed Saleh was appointed Chairman for a period of three years commencing from January 6, 2005. This action was fully endorsed at a subsequent Board meeting held on February 8, 2005.

The Board of Directors have also decided, in keeping with best practice, that a Chief Executive Officer be appointed instead of a General Manager. It was further agreed that Mr. R. Douglas Dowie be appointed as Chief Executive Officer, with effect from 9th January 2005.

Overview

The year 2004 was another strong year of growth for the UAE economy. Firm oil prices, public spending and the on-going development of Dubai as a regional centre aided continued expansion in the real estate, commercial and manufacturing sectors.

All business segments witnessed substantial growth and revenue generation accelerated. Total assets grew by 13% with an increase in customer deposits of AED 4.6 billion and the Directors are pleased to report a 15.3% increase in net profits to AED 928 million. Higher short term interest rates caused a reduction in net interest income to AED 815 million from AED 844 million. However, non-interest income, primarily fees and commissions, was a healthy AED 299 million from AED 264 million in the previous year, while profits made on disposals of available for sale investments were AED 308 million as compared to AED 264 million in 2003.

General and administrative expenses reduced by 8% during the year, primarily due to a reduction in manpower costs. This led to an improvement in the cost-to-income ratio from 36.2% to 32.1% in 2004.

Earnings per share increased to 8.56 this year from 7.42 in 2003 while return on equity was 17.1% compared to 14.6% last year. The Asset Mix has changed significantly over the last four years as the bank has moved out of Bank Placements and Fixed Income Investments into Loans and Advances. This year saw Loans and Advances exceed Investment Assets for the first time. The Bank remains one of the best capitalised in the region with a Capital Adequacy Ratio of 26%.

General performance and profitability

Commercial banking

Loans and advances grew by 42% during the year as a result of higher facility utilisation and new loans to the corporate and real estate sectors. In the context of the significant growth achieved in this sector, the fact that the loan provision requirements for the current year are only slightly higher than last year, reflects the continuing high quality of the loan portfolio.

The bank maintained its growth momentum by leveraging and enhancing its relationship management capabilities. In addition to providing loans to Government entities and businesses, the Bank actively solicited opportunities for underwriting and arranging project finance for large value projects in the local market. The Bank continues to diversify its asset portfolio with participation in syndicated loans in GCC countries, Iran and India.

The Bank is also taking initiatives to grow ancillary income streams by proactively leveraging existing corporate relationships to increase revenues from foreign exchange and other Treasury products.

"The Private Office", the private banking service of the Bank, continued to focus on product and solution development. Asset management capabilities were enhanced as was the Bank's visibility in the market place. An "in-house" Investment Management Group was formed and the NBD Gulf Balanced Fund under the "Aafaq" Investment Funds umbrella, was launched. As a result, the Bank gained second place in a Euromoney private banking survey, affirming its capability as a leading provider of wealth management and financial services in the UAE. The London branch of "The Private Office" continued to increase revenue through real estate activity, investments and trade finance.

The Bank is committed to developing its Retail Banking business. Expansion of credit card services was reinforced with merchant turnover crossing AED 5 billion, a growth of 44%. Several new campaigns were launched during the year, which aided growth of retail assets by 39%. The Auto loan scheme was re-launched and several new products including Home Loans and the "Suhail" priority banking products are ready to be launched in 2005.

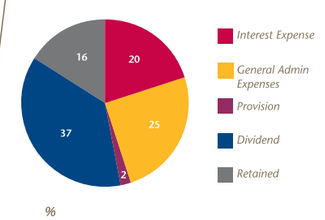
The bank service network has been further expanded with the establishment of two new branches at Souk Madinat Jumeirah and Muhaisnah and 16 new ATM's. In addition three branches have relocated to new premises in Bur Juman, Jumeirah and the Dubai International Convention Centre, so as to improve customer service efficiency. The internet banking platform has also become an important service delivery channel with increasing transaction volume.

Investment banking

Investment banking involves the management of the Bank's investment portfolio and treasury services. The year saw a change in the interest rate environment, with US Dollar and Dirham rates rising after several years of historic low rates. This caused volatility in Bond markets and there was a decrease in the fair value of the core Investment portfolio. However, as mentioned earlier, sales from the portfolio ensured that a significant amount of prevailing gains were realised.

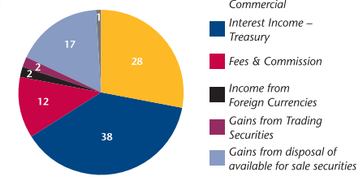
Stock markets put in an improved performance which contributed to an increase in income from managed portfolios. Investment Banking remains an important contributor to Bank's revenues.

How Income was Utilised



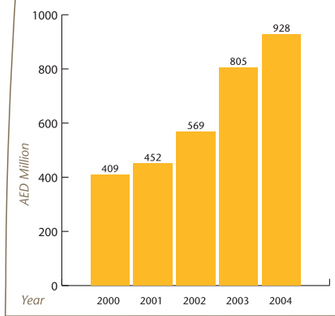
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How Income was Earned

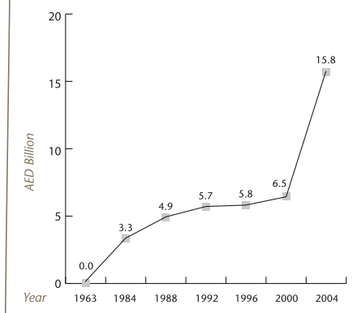


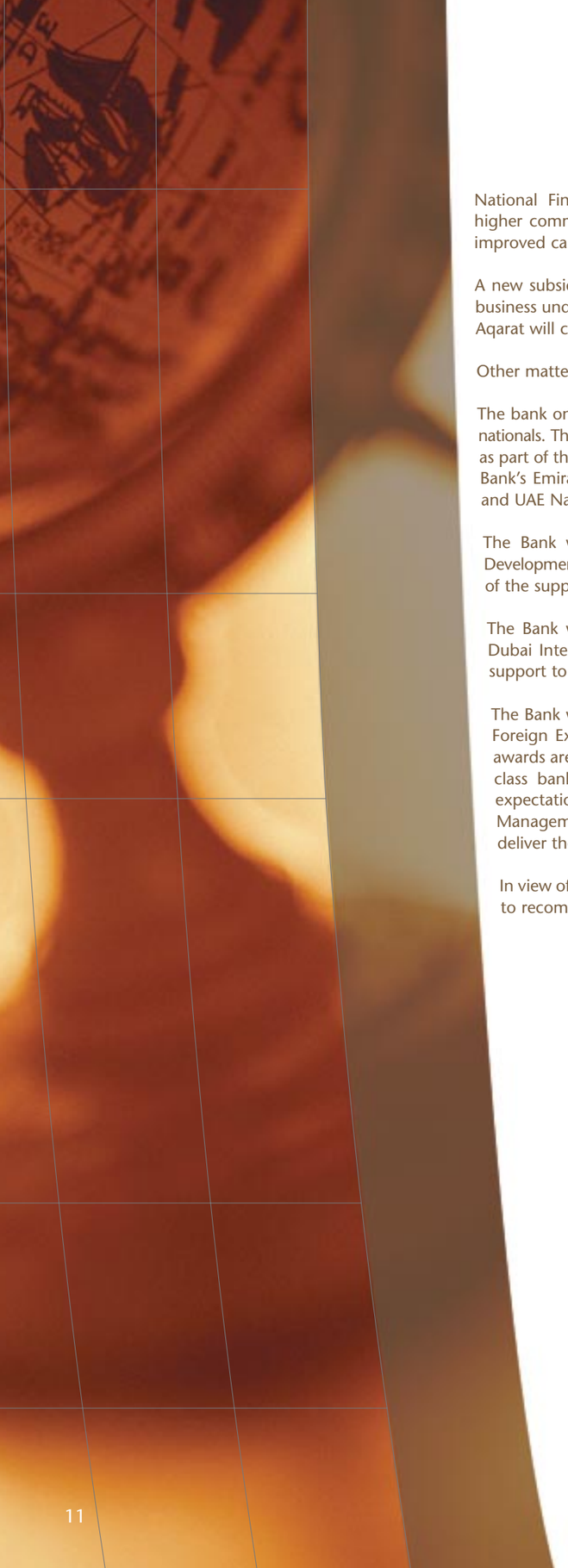
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Growth in Net Profit



Delivering Value - Market Capitalisation





National Financial Services LLC, the Bank's broking subsidiary, generated higher commission income as a result of increased business volumes due to improved capital market growth in the UAE.

A new subsidiary of the Bank has been created to carry out property related business under the name Aqarat LLC. All formalities have been completed and Aqarat will commence operations in early 2005.

Other matters

The bank once again underlined its commitment to the development of UAE nationals. The "Al Ruwad" High Potential UAE National program was established as part of the effort to attract and retain young, talented Nationals. Under the Bank's Emiratisation programme, 59 UAE nationals joined the bank in 2004 and UAE Nationals now form 30% of the workforce of the Bank.

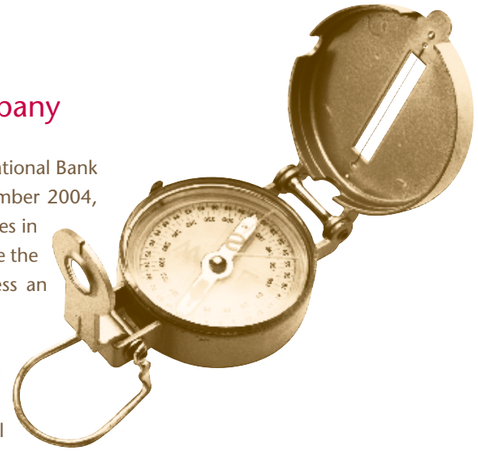
The Bank was a co-sponsor of the "Entrepreneurship and Business Plan Development Program" and the Sheikh Khalifa Industry Award in continuation of the support and encouragement for UAE National business talent.

The Bank was privileged to be one of the lead sponsors of the inaugural Dubai International Film Festival and it remains committed to sponsorship support to the development aspirations of the UAE.

The Bank was proud to be selected as the 'Best Bank in the UAE' and "Best Foreign Exchange Bank in the UAE" by 'Global Finance' magazine. These awards are a further testimony to the bank's continuing drive to be a world-class bank and to continuously meet and exceed customer needs and expectations. With the implementation of new Customer Relationship Management software in 2005 the Bank aims to be able to continue to deliver the highest quality of service to its customers.

In view of the strong growth in profitability the Board of Directors is pleased to recommend a cash dividend of 60%.

Auditors Report to the shareholders of National Bank of Dubai Public Joint Stock Company



We have audited the accompanying consolidated balance sheet of The National Bank of Dubai Public Joint Stock Company and its subsidiaries as of 31 December 2004, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Bank's Management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank and its subsidiaries as of 31 December 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply where appropriate with the Articles of Association of the Bank, Federal law No. 8 of 1984 (as amended) and Federal law No. 10 of 1980.

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

Edward B Quinlan
Partner, Registration No. 93

Ernst & Young

8 February 2005, Dubai

Consolidated Income Statement
Year ended 31 December 2004

	Notes	2004 AED'000	2003 AED'000
Interest income		1,167,276	1,111,476
Interest expense		(352,068)	(267,636)
Net interest income		**815,208**	**843,840**
Gain from disposal of available for sale securities		308,375	264,383
Other income	4	298,680	264,200
Operating income		**1,422,263**	**1,372,423**
General and administrative expenses	5	(456,705)	(496,615)
Provisions for impairment	6	(37,783)	(70,860)
		(494,488)	**(567,475)**
Net profit for the year		**927,775**	**804,948**
Earnings per share	7	**AED 8.56**	**AED 7.42**

The attached notes 1 to 27 form part of these financial statements.

Consolidated Balance sheet
31 December 2004



	Notes	2004 AED'000	2003 AED'000
Assets			
Cash and balances with Central Bank	8	4,308,054	1,836,027
Due from Banks		4,171,155	5,532,006
Securities	9	14,101,109	15,568,496
Loans and advances	10	16,619,862	11,744,298
Fixed assets	11	405,087	444,882
Other assets	12	662,017	497,698
Total Assets		**40,267,284**	**35,623,407**
Liabilities and Equity			
Liabilities			
Due to Banks		3,006,942	2,904,877
Customers' deposits		31,477,303	26,871,329
Other liabilities	13	345,372	363,278
		34,829,617	**30,139,484**
Equity			
Share capital	14	1,080,649	1,080,649
Legal reserve	14	540,325	540,325
Special reserve	14	540,325	540,325
Reserve for general Banking risks	14	300,000	300,000
General reserve	14	1,769,116	1,769,116
Retained earnings		516,601	237,365
Proposed cash dividend	15	648,389	648,389
Cumulative changes in fair values	16	42,262	367,754
Total Shareholders' Funds		**5,437,667**	**5,483,923**
Total Liabilities and Shareholders' Funds		**40,267,284**	**35,623,407**

Approved by the Board of Directors on 8 February 2005 and signed on its behalf by:

Abdullah Mohamed Saleh
(Chairman)

Humaid Bin Ali Al Owais
(Deputy Chairman)

R. Douglas Dowie
(Chief Executive Officer)

The attached notes 1 to 27 form part of these financial statements.

Consolidated Statement of Cash Flows
Year ended 31 December 2004

	2004 AED'000	2003 AED'000
Operating Activities		
Net profit for the year	927,775	804,948
Adjustments for:		
Depreciation	67,536	61,831
Provision for credit losses	37,783	29,500
Amortisation of premium/discount on securities	8,352	8,464
Gains less losses arising from securities available for sale	(308,375)	(264,383)
Operating profit before changes in operating assets and liabilities	**733,071**	**640,360**
Deposits with UAE Central Bank	(250,000)	50,000
Due from Banks	(780,883)	663,589
Trading securities (including managed funds)	(451,485)	229,223
Loans and advances	(4,913,347)	(2,533,881)
Other assets	(145,309)	(18,380)
Customers' deposits	4,605,974	(287,222)
Due to Banks	102,065	665,677
Other liabilities	(17,906)	87,457
Cash from (used in) operations	**(1,117,820)**	**(503,177)**
Taxation paid	-	(217)
Net cash from (used in) operating activities	**(1,117,820)**	**(503,394)**
Investing Activities		
Securities available for sale	1,809,784	(2,302,738)
Originated and held to maturity securities	67,459	(475,612)
Additions to fixed assets, net of disposals	(27,741)	(37,569)
Net cash from (used in) investing activities	**1,849,502**	**(2,815,919)**
Financing Activities		
Dividends paid	(648,389)	(432,260)
Directors' fees	(3,000)	(3,000)
Net cash used in financing activities	**(651,389)**	**(435,260)**
Increase (Decrease) in Cash and Cash Equivalents	**80,293**	**(3,754,573)**
Cash and cash equivalents at 1 January	6,236,191	9,990,764
Cash and Cash Equivalents at 31 December	**6,316,484**	**6,236,191**
Cash and cash equivalents comprise the following balance sheet amounts with original maturities of three months or less:		
Cash and balances with Central Bank	4,058,054	1,836,027
Deposits and other balances due from Banks	2,258,430	4,400,164
	6,316,484	**6,236,191**

The attached notes 1 to 27 form part of these financial statements.

Consolidated Statement of changes in equity
Year ended 31 December 2004



	Share Capital	*Legal reserve*	*Special reserve*	*Reserve for general Banking risks*	*General reserve*	*Retained earnings*	*Proposed cash dividend*	*Cumulative changes in fair values*	*Total*
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 31 December 2002	**1,080,649**	**540,325**	**540,325**	**300,000**	**1,769,116**	**80,160**	**432,260**	**747,746**	**5,490,581**
Dividends paid – 2002	-	-	-	-	-	-	(432,260)	-	(432,260)
Net profit for the year	-	-	-	-	-	804,948	-	-	804,948
Portion of realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	-	-	3,646	-	-	3,646
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	(379,992)	(379,992)
Directors' fees	-	-	-	-	-	(3,000)	-	-	(3,000)
Proposed cash dividend – 2003 (60%)	-	-	-	-	-	(648,389)	648,389	-	-
Balance at 31 December 2003	**1,080,649**	**540,325**	**540,325**	**300,000**	**1,769,116**	**237,365**	**648,389**	**367,754**	**5,483,923**
Dividends paid – 2003	-	-	-	-	-	-	(648,389)	-	(648,389)
Net profit for the year	-	-	-	-	-	927,775	-	-	927,775
Portion of realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	-	-	2,850	-	-	2,850
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	(325,492)	(325,492)
Directors' fees	-	-	-	-	-	(3,000)	-	-	(3,000)
Proposed cash dividend – 2004 (60%)	-	-	-	-	-	(648,389)	648,389	-	-
Balance at 31 December 2004	**1,080,649**	**540,325**	**540,325**	**300,000**	**1,769,116**	**516,601**	**648,389**	**42,262**	**5,437,667**

The attached notes 1 to 27 form part of these financial statements.

Notes to the consolidated financial statements
31 December 2004



1 General

The National Bank of Dubai Public Joint Stock Company (the Bank) was incorporated in Dubai in 1963 as The National Bank of Dubai Limited under a charter granted by H.H. The Ruler of Dubai and was registered in 1994 under the Commercial Companies Law Number 8 of 1984 (as amended) as a Public Joint Stock Company. The address of the Bank's registered office is P.O. Box 777, Dubai, United Arab Emirates.

The Bank's principal activity is commercial Banking.

The Bank employed 1,196 employees as of 31 December 2004 (2003: 1239).

2 Subsidiary Companies

The consolidated financial statements comprise those of The National Bank of Dubai Public Joint Stock Company and its subsidiary companies.

The extent of shareholding in, and the principal activities of the subsidiary companies are as follows:

Subsidiary Companies	*Country of incorporation*	*Percentage shareholding*	*Principal activities*
National Financial Services L.L.C.	U.A.E.	99.98%	The company provides broking services in financial instruments and commodities.
National Bank of Dubai Trust Company (Jersey) Limited	Jersey	100%	The company provides trustee and trust and company administration services in respect of trusts and companies established under the laws of Jersey and other jurisdictions for clients of The National Bank of Dubai Public Joint Stock Company.
Aqarat L.L.C.	U.A.E.	99.99%	Development and management of real estate and real estate projects.

3 Significant Accounting Policies

Basis of preparation
The consolidated financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee and applicable requirements of United Arab Emirates laws. The significant accounting policies adopted are as follows:

Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and securities that are classified as trading and available for sale.

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

The financial statements have been presented in UAE Dirhams.

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

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

Non-trading securities
These are classified as follows:

- Held to maturity
- Available for sale
- Originated by the Bank

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

Premiums and discounts on non-trading securities are amortised on a systematic basis to maturity using the effective interest method, and taken to interest income.

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

Available for sale
After initial recognition, securities which are classified as "available for sale" are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity, along with any transition adjustment to retained earnings arising from the adoption of IAS 39 is included in the income statement for the period.

Originated by the Bank
Investments in debt securities where the Bank provides funds directly to the issuer are stated at amortised cost, less provision for impairment.

Fair values
For securities and derivatives quoted in an active market, fair value determined by reference to quoted market prices at the close of business on the balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

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

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

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

The fair value of unquoted derivatives is determined either by discounted cash flows, (internal) pricing models or by reference to broker's quotes.

Loans and advances
Loans and advances are stated at amortised cost net of interest suspended and provisions for impairment.

Fixed assets
Fixed assets are stated at cost less accumulated depreciation and any impairment in value.

Freehold land is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives of other fixed assets as follows:



• Freehold buildings	25 years
• Leasehold properties and improvements	Period of lease
• Office furniture, equipment and software	3 to 10 years
• Motor vehicles	4 years

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

Deposits
All money market and customer deposits are carried at cost.

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

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

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

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

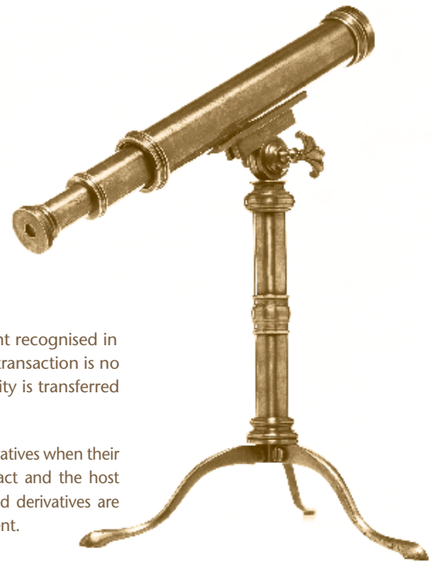
For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction.

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value as well as related changes in fair value of the item being hedged are recognised immediately in the income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and either transferred to the income statement in the period in which the hedged transaction impacts the income statement, or included in the initial measurement of the cost 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 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. At that point in time:
(a) for fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity



(b) for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

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

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

If such evidence exists, any impairment loss, is recognised in the income statement. Impairment is determined as follows:
(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
(b) for assets carried at fair value, impairment is the difference between cost and fair value.
(c) for assets carried at cost, impairment is based on the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
In addition, a provision is made to cover collective impairment for groups of assets based on their estimated recoverable amounts.

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

Revenue recognition
Interest receivable and payable is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. The recognition of interest income is suspended when loans become impaired. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value. Material loan commitment fees are recognised on a time proportion basis over the commitment period. Other fees and commissions receivable or payable are recognised when due. Dividend income is recognised when the right to receive payment is established.

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

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

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

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

4 Other Income

	2004 AED'000	2003 AED'000
Fees and commission income	211,409	167,355
Gains from trading securities (including managed funds)	39,890	36,754
Gains on foreign currencies	26,688	40,826
Other	20,693	19,265
	298,680	**264,200**

5 General and Administrative Expenses

	2004 AED'000	2003 AED'000
General and administrative expenses include:		
Staff costs	194,903	269,966
Depreciation	67,089	61,831
Donations and charities	2,050	1,575

6 Provisions for Impairment

	2004 AED'000	2003 AED'000
Loans and advances	37,783	29,500
Securities	-	23,000
Due from Banks	-	18,360
	37,783	**70,860**

7 Earnings per Share

Earnings per share is calculated by dividing the net profit for the year, net of directors' remuneration, of AED 924,775 thousand (2003: AED 801,948 thousand) by the weighted average number of shares outstanding during the year of 108,064,876 of AED 10 each (2003: 108,064,876 shares of AED 10 each).

8 Cash and Balances with Central Bank

	2004 AED'000	2003 AED'000
Cash in hand	247,448	201,815
Balances with Central Bank:		
Clearing accounts	260,074	44,693
Reserve requirements	1,525,532	1,139,519
Certificates of deposit	2,275,000	450,000
	4,308,054	**1,836,027**



9 Securities

	2004 AED'000	2003 AED'000
Trading, including managed funds	953,572	502,087
Non trading		
• *Available For Sale*		
Quoted	12,433,572	14,289,654
Unquoted	28,046	23,377
	12,461,618	**14,313,031**
• *Held To Maturity*		
Quoted	64,119	59,076
Less: Provision for impairment	(23,000)	(23,000)
	41,119	**36,076**
• *Originated*		
Quoted	644,800	276,602
Unquoted	-	440,700
	644,800	**717,302**
Total non-trading securities	**13,147,537**	**15,066,409**
Total securities	**14,101,109**	**15,568,496**

The movements in provision for impairment of securities were as follows:

	2004 AED'000	2003 AED'000
At 1 January	23,000	-
Charge for the year (note 6)	-	23,000
At 31 December	**23,000**	**23,000**

The Bank, through its agent, enters into transactions to lend securities from its portfolio on a fully collateralised basis. The borrowers are required to return the instruments at an agreed future date and to deposit the collateral with the agent. The securities are not derecognised. The fair value of securities lent as at the year end was AED 5,564,234 thousands (2003: AED 4,938,412 thousands).

Included under available for sale securities are unquoted equity securities with a value of AED 27,544 thousands (2003: AED 23,377 thousands), which are carried at cost.

10 Loans and Advances

	2004 AED'000	2003 AED'000
Overdrafts	4,512,041	3,004,718
Loans	11,255,578	8,102,323
Other	1,084,014	837,584
	16,851,633	**11,944,625**
Less provisions for impairment of loans and advances	(231,771)	(200,327)
	16,619,862	**11,744,298**

The composition of the loans and advances portfolio is as follows:

	2004 AED'000	2003 AED'000
Commercial and business		
- Manufacturing	2,581,554	1,789,418
- Transport and services	2,662,139	2,066,737
- Trade	2,953,659	1,898,813
- Other	2,127,878	2,463,004
	10,325,230	**8,217,972**
Construction and real estate	3,850,620	2,350,830
Personal	2,444,012	1,175,496
	16,619,862	**11,744,298**

At 31 December 2004, 85.3% of the Bank's loans and advances were to customers within the UAE (2003: 81.3%).

The movements in the provision for impairment of loans and advances during the year were as follows:

	2004 AED'000	*2003 AED'000*
Balance at 1 January	200,327	190,214
Charge for the year (note 6)	37,783	29,500
	238,110	219,714
Amounts written off during the year	(6,339)	(19,387)
Balance at 31 December	**231,771**	**200,327**

At 31 December 2004, the gross amount of loans and advances on which interest is not being accrued or where interest is suspended amounted to AED 276,201 thousand (2003: AED 289,379 thousand). Cumulative unrecognised interest relating to such loans amounted to AED 79,988 thousand (2003: AED 63,787 thousand).

11 Fixed Assets

	Freehold land and buildings AED'000	Leasehold properties and improvements AED'000	Other assets AED'000	Capital work-in progress AED'000	Total 2004 AED'000	*Total 2003 AED'000*
Cost:						
At 1 January	386,100	32,792	284,990	1,426	705,308	681,251
Additions	-	1,505	23,351	3,244	28,100	39,528
Transfers	-	3,809	309	(4,118)	-	-
Disposals	-	-	(8,259)	-	(8,259)	(15,471)
At 31 December	**386,100**	**38,106**	**300,391**	**552**	**725,149**	**705,308**
Depreciation:						
At 1 January	103,562	11,414	145,450	-	260,426	212,107
Provided for the year	15,389	4,827	47,320	-	67,536	61,831
Relating to disposals	-	-	(7,900)	-	(7,900)	(13,512)
At 31 December	**118,951**	**16,241**	**184,870**	**-**	**320,062**	**260,426**
Net book value at end of year	**267,149**	**21,865**	**115,521**	**552**	**405,087**	**444,882**

The cost of the freehold land is AED 20,100 thousand (2003: AED 20,100 thousand).

12 Other Assets

	2004 AED'000	*2003 AED'000*
Interest receivable	242,131	252,481
Sundry debtors and prepayments	83,413	59,935
Clearing	215,022	88,300
Positive fair value of derivatives (note 17)	121,451	96,982
	662,017	**497,698**



13 Other Liabilities

	2004 AED'000	*2003 AED'000*
Interest payable	78,810	43,458
Staff related provisions	72,647	104,522
Negative fair value of derivatives (note 17)	119,901	120,992
Other	74,014	94,306
	345,372	**363,278**

Other includes a provision for taxation amounting to AED 134 thousand (2003: AED 134 thousand). No taxation has been provided for 2004 (2003: Nil).

14 Share Capital and Reserves

Share capital
The authorised share capital of the Bank comprises 125,000,000 shares of AED 10 each (2003: 125,000,000 shares of AED 10 each).

The issued and fully paid share capital of the Bank comprises 108,064,876 shares of AED 10 each (2003: 108,064,876 shares of AED 10 each).

Legal reserve
In accordance with the Commercial Companies Law Number 8 of 1984 (as amended) and the Bank's Articles of Association, a legal reserve had been established in an earlier year. No transfer has been made to the legal reserve during the year as the reserve is equal to 50% of the paid up share capital of the Bank. The reserve is not available for distribution.

Special reserve
Article 82 of Union Law No. 10 of 1980 requires that 10% of the net profit is transferred to a special reserve until such reserve equals 50% of the paid up share capital. No transfer has been made to this reserve during the year as the reserve is equal to 50% of the paid up share capital of the Bank. This reserve is not available for distribution.

Reserve for general Banking risks
The reserve for general Banking risks may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an ordinary general meeting, on the recommendation of the Board of Directors.

General reserve
The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an ordinary general meeting, on the recommendation of the Board of Directors.

15 Dividends Paid and Proposed

Dividends of AED 6 per share (totalling AED 648,389 thousand) relating to the year 2003 were declared and paid during the year. During 2003, dividends of AED 4 per share (totalling AED 432,260 thousand) relating to the year 2002 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 648,389 thousand at AED 6 per share of AED 10 each for the year 2004. This is subject to the approval of the shareholders at the Annual General Meeting to be held during March 2005.

16 Cumulative Changes in Fair Values

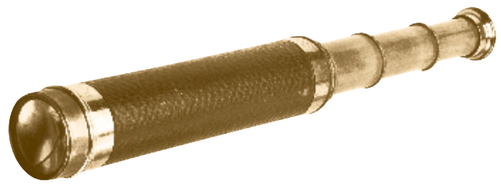
	2004 AED'000	2003 AED'000
Available for sale securities		
At 1 January	334,820	709,277
Net decrease in fair value during the year	(16,629)	(104,848)
Realised in the year	(327,873)	(269,609)
At 31 December	**(9,682)**	**334,820**
Cash flow hedges		
At 1 January	32,934	38,469
Net increase in fair value during the year	20,771	18,298
	53,705	56,767
Realised during the year	(1,761)	(23,833)
At 31 December	**51,944**	**32,934**
Balance of cumulative changes in fair values at 31 December	**42,262**	**367,754**

17 Derivatives

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

31 December 2004:

	Positive fair value AED'000	Negative fair value AED'000	Notional amount total AED'000	Notional amounts by term to maturity: Within 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 12 months AED'000	Over 1 to 5 years AED'000
Derivatives held for trading:							
Forward foreign exchange contracts	44,121	94,795	6,595,568	5,715,470	327,905	317,417	234,776
Foreign exchange options	6,056	6,056	265,884	69,478	-	-	196,406
Forward rate agreements	1,825	1,386	1,726,075	-	-	-	1,726,075
Interest rate caps	-	1,102	214,925	31,300	-	-	183,625
Interest rate swaps	57,953	16,562	4,739,788	-	-	1,334,419	3,405,369
Derivatives held as cash flow hedges:							
Interest rate swaps	8,502	-	918,125	-	183,625	-	734,500
Forward rate agreements	2,994	-	2,203,500	-	734,500	1,469,000	-
	121,451	**119,901**	**16,663,865**	**5,816,248**	**1,246,030**	**3,120,836**	**6,480,751**



31 December 2003:

	Positive fair value AED'000	Negative fair value AED'000	Notional amount total AED'000	Notional amounts by term to maturity: Within 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 12 months AED'000	Over 1 to 5 years AED'000
Derivatives held for trading:							
Forward foreign exchange contracts	51,669	107,776	6,699,596	5,535,655	295,440	534,498	334,003
Foreign exchange options	4,702	4,702	198,155	198,155	-	-	-
Forward rate agreements	11	-	220,350	-	-	-	220,350
Interest rate caps	-	1,134	231,725	4,200	4,200	8,400	214,925
Interest rate swaps	17,721	3,894	1,702,152	550,875	-	367,250	784,027
Derivatives held as cash flow hedges:							
Interest rate swaps	22,879	1,268	1,101,750	-	-	-	1,101,750
Forward rate agreements	-	2,218	1,652,625	-	550,875	1,101,750	-
	96,982	**120,992**	**11,806,353**	**6,288,885**	**850,515**	**2,011,898**	**2,655,055**

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

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

Derivative related credit risk
Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 80% (2003:80%) of the Bank's derivative contracts are entered into with other financial institutions and less than 20% (2003:20%) of the fair value of favourable contracts are with any individual counterparty at the balance sheet date.

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

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

The Bank uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate placements and customer 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 cash flow hedges.

Where, interest rate swaps and forward rate agreements are entered into to terminate the cash flow hedges, the cumulative gains reported earlier in equity are amortised to the income statement as and when the hedged transaction occurs.

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

18 Contingent Liabilities and Commitments

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

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

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

Credit default swaps commit the Bank to make payments to the buyer of the credit default swaps contingent upon the failure of the primary obligator to perform under the terms of the contract.

The Bank has the following credit-related commitments:

	2004 ***AED'000***	*2003* *AED'000*
Contingent liabilities:		
Letters of credit	852,047	756,923
Guarantees and acceptances	2,924,572	2,077,989
	3,776,619	**2,834,912**
Commitments:		
Irrevocable undrawn loan commitments	3,376,000	4,456,000
Future capital expenditure commitments	16,435	8,134
	3,392,435	**4,464,134**

19 Related Party Transactions

The Bank enters into transactions with major shareholders, directors, senior officers and their related concerns in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for possible loan losses. Related party transactions with the Government are specifically excluded from related party disclosures in accordance with International Financial Reporting Standards and accordingly have not been reported.

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



	2004 ***AED'000***	*2003* *AED'000*
Loans and advances	829,638	749,671
Customers' deposits	433,816	637,149
Commitments and contingencies	455,928	221,793

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

	2004 ***AED'000***	*2003* *AED'000*
Interest income	22,781	16,013
Interest expense	6,992	8,433

20 Segmental Information

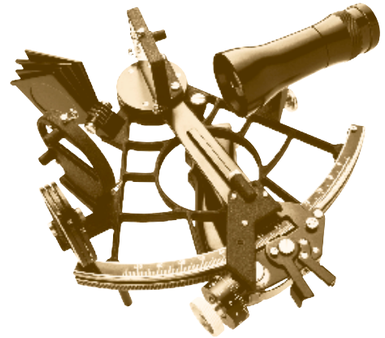
For operating purposes the Bank is organised into two major business segments: Commercial Banking, which principally provides loans and other credit facilities and deposit and current accounts for corporate, government, institutional and individual customers; and Investment Banking, which involves the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

	Commercial Banking		*Investment Banking*		*Total*	
	2004 ***AED'000***	*2003* *AED'000*	***2004*** ***AED'000***	*2003* *AED'000*	***2004*** ***AED'000***	*2003* *AED'000*
Interest and other income	720,906	521,617	1,053,425	1,118,442	1,774,331	1,640,059
Inter-segment adjustment	200,347	234,971	(200,347)	(234,971)	-	-
	921,253	756,588	853,078	883,471	1,774,331	1,640,059
Net Profit for the year	187,597	45,410	740,178	759,538	927,775	804,948
Segment assets	19,431,293	13,758,292	20,835,991	21,865,115	40,267,284	35,623,407
Segment liabilities and equity	35,065,243	31,050,421	5,202,041	4,572,986	40,267,284	35,623,407

For operational and management reporting purposes the Bank is organised as one geographical segment. Consequently, no secondary segment information is required to be provided.

21 Credit risk and Concentration of Credit risk

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



For details of the composition of loans and advances portfolio refer to note 10. For a geographical distribution of assets, liabilities and off-balance sheet items refer to note 22.

22 Concentrations

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

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

	2004			*2003*		
	Assets AED'000	*Liabilities and equity AED'000*	*Contingent liabilities and derivatives AED'000*	*Assets AED'000*	*Liabilities and equity AED'000*	*Contingent liabilities and derivatives AED'000*
Geographic area:						
United Arab Emirates	20,637,481	37,223,145	6,705,388	14,599,164	33,062,417	5,799,529
Other Middle East Countries	2,096,618	576,424	193,797	2,150,716	421,265	520,323
United Kingdom and Channel Islands	2,113,227	1,539,758	7,095,620	3,529,520	1,664,590	5,036,820
Western Europe	4,435,942	223,744	4,714,538	6,185,474	80,450	2,686,740
USA	8,993,523	60,823	1,003,566	7,306,969	6,999	142,605
Rest of world	1,990,493	643,390	727,575	1,851,564	387,686	455,248
	40,267,284	**40,267,284**	**20,440,484**	**35,623,407**	**35,623,407**	**14,641,265**
Industry sectors:						
Commercial and business	11,246,494	20,316,305	3,661,876	8,621,358	16,948,215	1,997,888
Banks and other financial institutions	21,727,567	3,153,798	14,313,774	22,627,390	3,063,642	11,110,421
Construction and real estate	3,850,620	16,513	875,302	2,350,830	16,327	579,719
Personal	2,444,013	11,017,642	849,957	1,175,496	9,733,717	459,008
Other	998,590	5,763,026	739,575	848,333	5,861,506	494,229
	40,267,284	**40,267,284**	**20,440,484**	**35,623,407**	**35,623,407**	**14,641,265**

23 Market Risk

Market risk arises from fluctuation in interest rates, foreign exchange rates and equity prices. Limits have been established on the value of risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee.

24 Interest Rate Risk

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

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

The Bank's interest rate sensitivity position as at 31 December 2004, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

	Effective interest rate%	*Up to three months AED'000*	*Over three months to six months AED'000*	*Over six months to one year AED'000*	*Over one year to five years AED'000*	*Over five years AED'000*	*Not exposed to interest rate risk AED'000*	*Total AED'000*
Assets								
Cash and balances with the Central Bank	1.00-2.25%	2,275,000	-	-	-	-	2,033,054	**4,308,054**
Due from Banks	1.00-4.00%	3,323,357	520,287	148,474	179,037	-	-	**4,171,155**
Securities	2.50-5.00%	1,735,971	1,032,029	150,119	4,694,603	6,488,387	-	**14,101,109**
Loans and advances	1.50-12.00%	14,222,731	1,251,208	261,467	884,456	-	-	**16,619,862**
Fixed assets		-	-	-	-	-	405,087	**405,087**
Other assets		-	-	-	-	-	662,017	**662,017**
Total assets		**21,557,059**	**2,803,524**	**560,060**	**5,758,096**	**6,488,387**	**3,100,158**	**40,267,284**
Liabilities and shareholders' funds								
Due to Banks	1.00-3.00%	2,634,469	372,473	-	-	-	-	**3,006,942**
Customers' deposits	0.50-2.25%	23,365,777	872,605	375,392	26,892	-	6,836,637	**31,477,303**
Other liabilities		-	-	-	-	-	345,372	**345,372**
Shareholders' funds		-	-	-	-	-	5,437,667	**5,437,667**
Total liabilities and shareholders' funds		**26,000,246**	**1,245,078**	**375,392**	**26,892**	**-**	**12,619,676**	**40,267,284**
On balance sheet gap		(4,443,187)	1,558,446	184,668	5,731,204	6,488,387	(9,519,518)	
Off balance sheet gap		1,652,625	(183,625)	(734,500)	(734,500)	-	-	
Total interest rate sensitivity gap		**(2,790,562)**	**1,374,821**	**(549,832)**	**4,996,704**	**6,488,387**	**(9,519,518)**	
Cumulative interest rate sensitivity gap		**(2,790,562)**	**(1,415,741)**	**(1,965,573)**	**3,031,131**	**9,519,518**		

24 Interest Rate Risk... cont'd.

31 December 2003

	Effective interest rate%	*Up to three months AED'000*	*Over three months to six months AED'000*	*Over six months to one year AED'000*	*Over one year to five years AED'000*	*Over five years AED'000*	*Not exposed to interest rate risk AED'000*	*Total AED'000*
Assets								
Cash and balances with the Central Bank	1.00-1.25%	450,000	-	-	-	-	1,386,027	**1,836,027**
Due from Banks	1.00-1.75%	4,460,043	451,719	431,108	189,136	-	-	**5,532,006**
Securities	3.50-5.00%	1,716,412	155,212	217,354	7,365,994	6,113,524	-	**15,568,496**
Loans and advances	1.50-12.00%	6,710,059	1,536,047	2,292,815	1,205,377	-	-	**11,744,298**
Fixed assets		-	-	-	-	-	444,882	**444,882**
Other assets		-	-	-	-	-	497,698	**497,698**
Total assets		**13,336,514**	**2,142,978**	**2,941,277**	**8,760,507**	**6,113,524**	**2,328,607**	**35,623,407**
Liabilities and shareholders' funds								
Due to Banks	1.00-1.25%	2,696,618	17,996	190,263	-	-	-	**2,904,877**
Customers' deposits	0.50-1.00%	16,733,915	4,400,950	1,178,722	28,201	-	4,529,541	**26,871,329**
Other liabilities		-	-	-	-	-	363,278	**363,278**
Shareholders' funds		-	-	-	-	-	5,483,923	**5,483,923**
Total liabilities and shareholders' funds		**19,430,533**	**4,418,946**	**1,368,985**	**28,201**	**-**	**10,376,742**	**35,623,407**
On balance sheet gap		(6,094,019)	(2,275,968)	1,572,292	8,732,306	6,113,524	(8,048,135)	-
Off balance sheet gap		1,652,625	-	(550,875)	(1,101,750)	-	-	
Total interest rate sensitivity gap		**(4,441,394)**	**(2,275,968)**	**1,021,417**	**7,630,556**	**6,113,524**	**(8,048,135)**	
Cumulative interest rate sensitivity gap		**(4,441,394)**	**(6,717,362)**	**(5,695,945)**	**1,934,611**	**8,048,135**		

25 Currency Risk

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

The Bank had an overbought position in US Dollars of AED equivalent 7,948,787 thousand as at 31 December 2004 (2003: AED equivalent 8,914,766 thousand). There was no significant open position in any other currency. The UAE Dirham/US Dollar dealing rate fixed by the UAE Central Bank has remained virtually unchanged since November 1980.

26 Liquidity Risk

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

The maturity profile of the assets and liabilities at 31 December 2004 was as follows:

	Total AED'000	*Less than 3 months AED'000*	*Over 3 months to 6 months AED'000*	*Over 6 months to 1 year AED'000*	*Over 1 year AED'000*
Assets					
Cash and balances with Central Bank	4,308,054	4,308,054	-	-	-
Due from Banks	4,171,155	3,323,357	520,287	148,474	179,037
Securities	14,101,109	1,052,392	160,430	150,118	12,738,169
Loans and advances	16,619,862	6,312,794	262,575	456,807	9,587,686
Other assets	662,017	662,017	-	-	-
	39,862,197	**15,658,614**	**943,292**	**755,399**	**22,504,892**
Fixed assets	405,087				
Total	**40,267,284**				
Liabilities and Shareholders' Funds					
Due to Banks	3,006,942	2,634,469	372,473	-	-
Customers' deposits	31,477,303	30,202,414	872,605	375,392	26,892
Other liabilities	345,372	345,372	-	-	-
	34,829,617	**33,182,255**	**1,245,078**	**375,392**	**26,892**
Shareholders' funds	5,437,667				
Total	**40,267,284**				

The maturity profile of the assets and liabilities at 31 December 2003 was as follows:

	Total AED'000	*Less than 3 months AED'000*	*Over 3 months to 6 months AED'000*	*Over 6 months to 1 year AED'000*	*Over 1 year AED'000*
Assets					
Cash and balances with Central Bank	1,836,027	1,836,027	-	-	-
Due from Banks	5,532,006	4,460,043	451,719	431,108	189,136
Securities	15,568,496	729,519	60,070	254,101	14,524,806
Loans and advances	11,744,298	4,515,035	379,319	185,068	6,664,876
Other assets	497,698	497,698	-	-	-
	35,178,525	**12,038,322**	**891,108**	**870,277**	**21,378,818**
Fixed assets	444,882				
Total	**35,623,407**				
Liabilities and Shareholders' Funds					
Due to Banks	2,904,877	2,696,618	17,996	190,263	-
Customers' deposits	26,871,329	21,263,456	4,400,950	1,178,722	28,201
Other liabilities	363,278	363,278	-	-	-
	30,139,484	**24,323,352**	**4,418,946**	**1,368,985**	**28,201**
Shareholders' funds	5,483,923				
Total	**35,623,407**				



Maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. In particular, securities with contractual maturity dates over 1 year include quoted securities amounting to AED 12,710,625 thousand (2003: AED 14,060,729 thousand) that can be liquidated in less than three months.

27 Fair value of Financial Instruments

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences therefore can arise between book values under the historical cost method and fair value estimates. The fair value of the Bank's on-balance sheet financial instruments is not materially different from the carrying value at 31 December 2004, since these are either short-term in nature, valued using quoted market prices or in the case of loans and advances and deposits, frequently repriced. The fair value of the Bank's derivative financial instruments is shown in note 17.