

مصرف الإمارات الإسلامي

EMIRATES ISLAMIC BANK

(Public Joint Stock Company)

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Board of Directors' Report

For the year 2005

Respected Shareholders,

Peace and blessings be upon you..

The Board of Directors is pleased to present the annual report on the Bank's activities and results for the year 2005 which comes after a year filled with activities and achievements. Results, with the Grace of Almighty Allah, were ahead of expectations and the extraordinary growth rates exceeded all estimates and the financial plan.

During 2005, the bank continued its blessed step which started on October 9th 2004 by the transformation to the Islamic Banking System, where the bank provided more developed products and services. The bank has also expanded and diversified its investment and real estate portfolio, realizing a rewarded income for both depositors and shareholders, enabled the bank to pay competent profit rates on all types of deposits.

Moreover, the bank management has spared no efforts to refurbish and renovate most of the branches, reflecting its new identity and offering a comfortable environment for its customers and employees. In addition, the bank opened a second branch in the city of Abu Dhabi, launching its ambitious expansion plan to open a chain of branches across the country by the end of 2006.

Financial performance:

First: Total income amounted to AED 189 Million, compared to AED 65 Million in 2004; an increase of 191%. This was basically due to the increase in income from the following:

- Financing and investing activities by AED 97 Million.
- Murabaha with Group Holding Company by AED 29 Million.
- Commissions and fees by AED 30 Million.

Second: Total expenses increased to AED 108 Million, compared to AED 59 Million in 2004, a rise of 84% due to:

- Increase in staff costs of 35 Million (116%) as a result of the new recruits required for the expansion of the Bank's activities.
- Increase in other general and administrative expenses by AED 23 Million (180%).
- Increase in depreciation charge for the year of AED 2.6 Million (224%).

Third: The net profit for the year (after depositors' share of profit) amounted to AED 43 Million, compared to AED 19.6 Million in 2004, an increase of 120%.

Fourth: Total assets reached AED 4.8 Billion, compared t0 AED 2.3 Billion in 2004, an outstanding increase of 103% represented in the following:

- AED 165 Million (98%) increase in cash and balances with banks.
- AED 2.2 Billion (104%) increase in financing and investing portfolio (including short term Murabaha and balances with EBI).
- AED 71 Million (97%) increase in prepayments and other assets (Emirates Real Estate Fund dividend income - AED 9.5 Million. Deferred sales commission on Vehicles Murabaha - AED 7.5 Million. Increase in acceptances - AED 33 Million, recognized on Balance Sheet under the revised IAS 39. Goods available for sale - AED 4 Million. Prepaid rent for Head Office and branches - AED 5 Million).

Fifth: Total deposits reached to AED 3.6 Billion, an extraordinary growth 189% compared to the previous year, which comprise of: Fixed deposits AED 1,7 Billion, savings accounts AED 402 Million, and current accounts and others AED 1,5 Billion.

Sixth: Total Shareholders' Equity amounted to AED 852 Million, compared to AED 816 Million in the previous year (restated), an increase of 4%, resulting from the remarkable increase of the net profit for the year.

Recommendations:

The Board of Directors recommends the following:

1. To approve the Financial Statements for the year ended 31 December 2005.
2. To appropriate the net profit for the year of AED 43 Million as follows:
   - Transfer 10% of the net profit to the statutory reserve in accordance With Article (72.a) of Articles of Association - AED 4.3 Million
   - Transfer 10% of the net profit to general reserve in accordance with Article (72.a) of Articles of Association - AED 4.3 Million
   - Payment of Zakat on Shareholders' Equity (excluding paid up capital) in accordance with Article (72.g) of Articles of Association - AED 5.6 Million
   - Approval of Directors' remuneration in accordance with Article (72-A4) of Articles of Association - AED 1.4 Million
   - Transfer the balance to Retained Earnings - AED 27.4 Million

We pray to Almighty Allah to guide us to all that is best.

Board of Directors

KPMG

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC

We have audited the accompanying balance sheet of Emirates Islamic Bank PJSC ("the Bank") as of 31 December 2005 and the related statements of income, changes in equity and cash flows for the year then ended.

Respective responsibilities of the Management and the Auditors

These financial statements are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

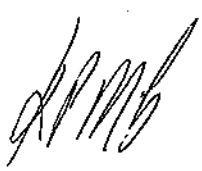
We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply, where appropriate, with the Articles of Association of the Bank and Federal Law No. 8 of 1984 (as amended).

Other matters

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Bank, and the contents of the Chairman's report which relates to the financial statements is in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2005, which may have had a material adverse effect on the business of the Bank or its financial position.



Name : Vijendra Nath Malhotra
Registration No. : 48 B
Date : 24 January 2006

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Emirates Islamic Bank (PJSC)

BALANCE SHEET

At 31 December 2005

	Note	2005 AED'000	(Restated) 2004 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	11	238,858	148,764
Due from banks and other financial institutions		95,088	19,845
Due from Group Holding Company	12	1,354,613	1,417,616
Financing receivables and investments	13	2,447,155	463,593
Loans and receivables	14	44,774	39,758
Other Investments	15	293,340	339
Investment properties	16	128,729	172,455
Prepayments and other assets	17	143,965	73,007
Property and equipment	18	21,955	10,267
TOTAL ASSETS		**4,768,477**	**2,345,644**
LIABILITIES			
Customers' deposits	19	3,596,981	1,234,517
Due to banks and other financial institutions	20	17,932	14,768
Due to Group Holding Company	12	-	198,066
Other liabilities	21	295,495	79,892
Zakat payable	22	5,704	2,080
TOTAL LIABILITIES		**3,916,112**	**1,529,323**
SHAREHOLDERS' EQUITY			
Share capital	23	650,000	500,000
Statutory reserve	24	111,233	106,925
General reserve	24	54,308	64,857
Retained earnings		36,824	144,539
TOTAL SHAREHOLDERS' EQUITY		**852,365**	**816,321**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,768,477**	**2,345,644**
COMMITMENTS & CONTINGENT LIABILITIES	25	**938,132**	**2,355,164**

These financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 24 January 2006

Chairman Director Chief Executive Officer

The attached notes 1 to 34 form part of these financial statements.
The auditors' report is set out on page 1.

Emirates Islamic Bank (PJSC)

STATEMENT OF CASH FLOWS

Year Ended 31 December 2005

	Note	2005 AED'000	(Restated) 2004 AED'000
OPERATING ACTIVITIES			
Shareholders' profit (Net income for the year)		43,080	19,570
Adjustments for:			
Impairment allowances on loans and advances		2,932	2,625
Impairment allowances on financing receivables and investments		5,335	-
Gain on sale of investment properties		(19,730)	(3,524)
Gain on revaluation of investment securities		(6,587)	-
Gain on redemption of units		(361)	-
Depreciation on property and equipment		3,738	1,155
Depreciation on investment properties		3,200	-
Profit equalization reserve		2,576	-
Directors' remuneration		-	(500)
Operating profit before changes in operating assets and liabilities		34,183	19,326
Increase in balances with U.A.E. Central Bank		(85,050)	(9,867)
(Increase) / decrease in due from Group Holding Company		(158,935)	13,450
Increase in financing receivables and investments		(1,988,897)	(463,593)
(Increase) / decrease in loans and receivables		(7,948)	252,500
(Increase) / decrease in prepayments and other assets		(71,476)	(64,509)
Increase in customers' deposits		2,362,464	27,373
Increase in other liabilities		215,603	59,720
Zakat paid		3,625	-
Net cash provided by (used in) operating activities		303,569	(165,600)
INVESTING ACTIVITIES			
Purchase of investment properties		(310,969)	(172,455)
Sale of investments properties		61,289	-
Proceeds from sale of other investments		18,365	-
Profit from sale of investment properties		7,378	-
(Purchase)/ sale of other investment, net		(11,019)	17,699
Proceeds from sale of properties and equipment		111	-
Purchase of property and equipment		(15,473)	(8,738)
Net cash used in investing activities		(250,318)	(163,494)
FINANCING ACTIVITIES			
Dividends paid		-	(25,000)
Net cash used in financing activities		-	(25,000)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**53,251**	**(354,094)**
Cash and cash equivalents at the beginning of the year	**26**	1,264,083	1,618,177
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**26**	**1,317,334**	**1,264,083**

The attached notes 1 to 34 form part of these financial statements.
The auditors' report is set out on page 1.

5. COMMISSIONS, FEES AND OTHER INCOME, NET

	2005 AED'000	2004 AED'000
Commissions and fees, net	15,012	11,272
Foreign exchange gains, net	5,153	3,752
Profit on sale of investment properties	19,730	3,524
Other income	15,496	7,004
	55,391	**25,552**

6. INTEREST INCOME AND EXPENSE

Effective from October 9th, 2004 (transformation date) and as per Fatwa and Sharia Supervisory Board, net interest income (expense) resulting from transactions not settled and not converted on that date is taken to shareholders' profit

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2005 AED'000	2004 AED'000
Staff related expenses	66,066	30,644
Operating expenses	22,145	8,363
Administrative expenses	13,139	4,232
Transformation to Islamic Bank expenses	-	14,506
Depreciation on property and equipment	3,738	1,155
	105,088	**58,900**

8. RECOVERIES NET OF IMPAIRMENT ALLOWANCES

	2005 AED'000	2004 AED'000
Net impairment of loans and receivables	(2,932)	(2,625)
Net impairment of financing receivables and investments	(5,335)	-
Recoveries	14,842	19,148
	6,575	**16,523**

9. DEPOSITORS' SHARE OF PROFIT

The distribution of profit between depositors and shareholders is made in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board effective from October 9th, 2004 (also, refer to note 3). The application of the above method resulted in:

	2005 AED'000	2004 AED'000
Paid for the first three quarter	22,738	-
Payable for the last quarter	18,847	2,996
Transferred to profit equalization reserve during the year (note 19)	2,644	-
Depositors' share of profit for the year	**44,229**	**2,996**

10. EARNINGS PER SHARE

The calculation of earnings per share is based on earnings of AED 43,080,000 (2004: AED 19,570,000), being the income for the year ended 31 December 2005 attributable to 650,000,000 shares (2004: 650,000,000 Shares). The 2004 earnings per share has been adjusted to reflect the bonus issue and share split made during 2005.

11. CASH AND BALANCES WITH U.A.E. CENTRAL BANK

	2005 AED'000	2004 AED'000
Cash in hand	44,500	39,456
Balances with UAE Central Bank:		
Current accounts	2,334	17,362
Reserve requirements	192,024	91,946
	238,858	**148,764**

12. DUE FROM / TO GROUP HOLDING COMPANY

	2005 AED'000	(Restated) 2004 AED'000
Due from Group Holding Company comprises:		
Murabaha with Emirates Bank International (PJSC)	664,977	1,416,820
Deposit exchange (profit free)	381,414	-
Other accounts	308,222	796
	1,354,613	**1,417,616**
Due to Group Holding Company comprises:		
Current and other accounts	-	**198,066**

13. FINANCING RECEIVABLES AND INVESTMENTS

	2005 AED'000	2004 AED'000
Financing receivables comprise:		
Commodities Murabaha	364,786	101,201
Vehicles Murabaha	812,137	63,615
Syndication Murabaha	408,842	219,673
Real Estate Murabaha	110,916	-
Total Murabaha	1,696,681	384,489
Istisna	15,821	-
Ijara	603,582	129,456
Credit card receivables	37,468	-
Others	47,968	41,860
	2,401,520	555,805
Less: Deferred income	(195,459)	(30,557)
Allowance for impairment	(66,990)	(61,655)
	2,139,071	**463,593**
Investments comprise:		
Sukuk	271,734	-
Funds	36,350	-
	308,084	**-**
	2,447,155	**463,593**

The allowance for impairment for financing receivables and investment as of 31 December 2005 amounting to AED 66,990,000 includes an amount of AED 61,655,000 was transferred from the allowance for impairment for loans and receivables which were transformed to financing receivables in 2004

Movement in Financing Receivables and Investments Allowance for Impairment

	2005 AED'000	2004 AED'000
Balance at the beginning of the year	61,655	-
Transfer during the year	-	61,655
Provision made during the year	5,335	-
Balance at the end of the year	**66,990**	**61,655**

13. FINANCING RECEIVABLES AND INVESTMENTS, (Continued)

	2005 AED'000	2004 AED'000
Financing receivables and investments by Economic Activity		
Agriculture and related activities	26,660	163,316
Manufacturing	130,244	49,547
Construction	132,934	49,753
Trade	419,231	61,658
Transportation and communication	3,905	60,440
Services and personal	1,306,080	156,601
Others	690,550	14,490
	2,709,604	555,805
Less: Deferred income	(195,459)	(30,557)
Allowance for impairment of loans	(66,990)	(61,655)
	2,447,155	**463,593**

14. LOANS AND RECEIVABLES

	2005 AED'000	2004 AED'000
Overdraft	64,766	77,173
Time and installment loans	44,561	35,232
Loans against trust receipts	10,508	14,675
Bills discounted	4,091	4,122
Others	1,196	2,478
	125,122	133,680
Less: Allowance for impairment	(80,348)	(93,922)
	44,774	**39,758**
Loans and advances by Economic Activity		
Agriculture and related activities	2,081	1,194
Manufacturing	14,831	21,358
Construction	5,772	25,111
Trade	11,915	10,864
Transportation and communication	47,689	43,972
Services and personal	42,834	30,935
Others	-	246
	125,122	133,680
Less: Allowance for impairment	(80,348)	(93,922)
	44,774	**39,758**

14. LOANS AND RECEIVABLES (continued)

Movement in loans and receivables allowance for impairment

	2005 AED'000	2004 AED'000
Balance at the beginning of the year	93,922	173,183
Charge made during the year	2,932	2,625
Recoveries	(12,852)	(13,610)
Transfers	-	(61,655)
Write off	(3,654)	(6,621)
	80,348	**93,922**

During 2004, the Bank transferred some of its corporate and retail loans at book value with associated provision for impairment to the Holding Company.
Included in the "Others" above are delinquent loans and receivables that are identified at the time of acquisition of Middle East Bank PJSC by the Holding Company. These are managed in a workout situation. The loan balances on these accounts amounted to AED 241,180,000 (2004: 242,665,000) against which provision for impairment of AED 241,180,000 (2004: AED 242,665,000) are applied. Net recoveries of the AED 2,645,000 (2004: AED 2,875,000) have been credited to the income statement.

15. OTHER INVESTMENTS

	2005 AED'000	2004 AED'000
Investments at cost	286,753	339
Gain on revaluation of investments	6,587	-
	293,340	339
Less: Allowance for impairment	-	-
	293,340	**339**
Other Investments comprise:		
Quoted (also refer note 27)	293,001	-
Unquoted	339	339
	293,340	339
Less: Allowance for impairment	-	-
	293,340	**339**

Investments in unquoted securities are carried at cost less allowance for impairment, as the fair value cannot be reliably measured.

16. INVESTMENT PROPERTIES

	2005 AED'000	2004 AED'000
Land	91,829	48,726
Buildings	36,900	123,729
	128,729	172,455
Less: Accumulated depreciation	-	-
	128,729	**172,455**

The fair value of investment properties as of 31 December 2005 is AED 151,310,000 (2004- AED 172,455,000) as per valuation conducted by independent valuers. No depreciation charge has been recognised for the year since the building was acquired in late December 2005.

Movement in investment properties

	2005 AED'000	2004 AED'000
Balance as at the beginning of the year	172,455	-
Property purchased	310,969	172,455
Property sold (also refer note 27)	(354,695)	-
Balance at the end of the year	**128,729**	**172,455**

17. PREPAYMENTS AND OTHER ASSETS

	2005 AED'000	2004 AED'000
Dividends receivables	9,545	-
Overdrafts accounts (profit free)	18,308	14,065
Bills under LC s	13,155	5,163
Prepaid expenses	6,645	1,499
Deferred sales commissions	7,492	-
Contingent customer acceptance (refer note 25)	66,187	33,679
Goods available for sale	18,605	14,243
Others	8,733	9,063
	148,670	77,712
Less: Allowance for impairment	(4,705)	(4,705)
	143,965	**73,007**

18. PROPERTY & EQUIPMENT

The movement on property & equipment during the year is as follows:

	Leasehold Improvement AED'000	Other assets AED'000	Total AED'000
Cost			
As of 1 January 2005	12,188	9,859	22,047
Additions	8,853	6,620	15,473
Disposals	(56)	(302)	(358)
At 31 December 2005	20,985	16,177	37,162
Accumulated depreciation			
As of 1 January 2005	5,295	6,485	11,780
Charge for the year	2,089	1,649	3,738
Disposals	(12)	(299)	(311)
At of 31 December 2005	7,372	7,835	15,207
Net book value:			
31 December 2005	**13,613**	**8,342**	**21,955**
31 December 2004	6,893	3,374	10,267

Other assets include a plot of land owned by the Bank amounting to AED 600,000 (2004: AED 600,000).

19. CUSTOMERS' DEPOSITS

	2005 AED'000	2004 AED'000
Current accounts	1,423,280	496,120
Saving accounts	402,168	209,013
Fixed deposits	1,720,591	506,424
Margins	48,366	22,960
Profit Equalization Reserve	2,576	-
	3,596,981	**1,234,517**

PROFIT EQUALIZATION RESERVE

Balance, beginning of year	-	-
Transfer from depositors' share of profit	2,644	-
Zakat of the transferred amount	(68)	-
Balance, end of year	**2,576**	**-**

Profit equalization reserve has been made in the year 2005 after being approved by the Board of Directors and the Bank's Fatwa and Sharia Supervisory Board. Zakat on profit equalization reserve is included under accrued Zakat.

20. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005 AED'000	2004 AED'000
Demand and call deposits	3,732	1,135
Clearing account with UAE Central Bank	14,200	-
Overdraft with correspondents	-	13,633
	17,932	**14,768**

21. OTHER LIABILITIES

	2005 AED'000	2004 AED'000
Interest payable	-	52
Depositors' share of profit (Note 9)	18,847	2,996
Provision for employee benefits	22,901	19,176
Manager Cheque, pay orders and demand drafts	138,081	12,575
Trade payables	22,446	-
Contingent customer acceptance (refer note 25)	66,187	33,679
Board of Directors' remuneration	1,400	-
Retentions payable	2,872	-
Forfeited income	15	-
Others	22,746	11,414
	295,495	**79,892**

22. ZAKAT PAYABLE

	2005 AED'000	(Restated) 2004 AED'000
Zakat on shareholders' equity (except for share capital)	5,636	2,080
Zakat on profit equalization reserve (Note 19)	68	0
	5,704	**2,080**

The Zakat due for 2005 is for one full year from January 1st to December 31st, 2005 (2004 was calculated for the period from October 9th, to December 31st, 2004).

23. SHARE CAPITAL

At an Extraordinary General Meeting of the shareholders of the Bank held on 21 December 2005, the shareholders resolved to split the value of the share to AED 1 instead of AED 10 each and to increase the Bank' s share capital to AED 650,000,000 by transferring AED150,000,000 from retained earnings as an issue of bonus shares. As at 31 December 2005, the Bank's authorized, issued and fully paid-up capital comprises of 650,000,000 normal shares of AED 1 (2004: 50,000,000 of AED 10 each). The Board of Directors have not recommended any dividend for the current year.

24. STATUTORY AND GENERAL RESERVE

In accordance with the Bank's Articles of Association, Article (82) of Union Law no. 10 of 1980 and Federal Commercial Companies Law, the Bank transfers 10% of shareholders' annual net income, if any, to statutory reserve until such reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

A further 10% of the annual net income, if any, is transferred to a general reserve. Transfer to general reserve is suspended by an ordinary General Meeting or if it reaches 10% of the Bank's paid-up capital. The Board of Directors proposes the use of the general reserve at its discretion.

25. COMMITMENTS AND CONTINGENT LIABILITIES

The Bank provides letters of guarantees and letters of credit to meet the requirements of the Bank's customers. These agreements have fixed limits and expirations and are not concentrated in any period and are arising in the normal course of business, as follows:

	2005 AED'000	2004 AED'000
Letters of guarantee	518,580	2,187,970
Letters of credit	368,335	92,322
Other contingent liabilities	51,217	74,872
	938,132	**2,355,164**

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

Included in letters of guarantee for 2004 above, a guarantee amounted to AED 1,836 million for Emirates Bank International (Group Holding Company) in favour of UAE Ministry of Economy. This guarantee was canceled in 2005.

At any time the Bank has outstanding commitments to extend credit. These commitments take form of approved financing facilities. Outstanding financing facilities have a commitment period that does not extend beyond one year. The Bank provides financial guarantees and letters of credit to guarantee the performance of its customer to third party. These agreements have fixed limits and generally extend for one year. Expiration is not concentrated in any period.

The contractual amount of commitments to extend credit and financial guarantees are set out above. These commitments and contingent liabilities have off balance sheet credit risk. Many of the commitments and contingent liabilities will expire without being advanced in whole or in part. Therefore the above amounts do not represent future cash flows.

The Bank has capital commitments amounting to AED 4,490,762 as at 31 December 2005 (2004-Nil).

26. CASH AND CASH EQUIVALENTS

	2005 AED'000	(Restated) 2004 AED'000
Cash	44,500	39,456
Due from Holding Company maturing within 3 months	1,195,678	1,417,616
Due from banks	95,088	19,845
Due to banks	(17,932)	(14,768)
Due to Holding Company maturing within 3 months	-	(198,066)
	1,317,334	**1,264,083**

27. Investment in Emirates Real Estate Fund

During the year, the Bank has sold certain investment properties to Emirates Real Estate Fund (EREF), a fund managed by Belgravia Asset Management Limited, at fair value amounting to AED 293,399,000 in lieu of issue of units in the fund. These units are carried at the latest Net Asset Value as declared by the fund manager and have been classified as fair value through income statement.

28. RELATED PARTY TRANSACTIONS

The Bank has transactions carried out in the normal course of business with the Emirates Bank International Group and with certain staff, shareholders, directors and entities in which the bank, its shareholders and directors have significant interests. Related party transactions are as follows:

	2005 AED'000	(Restated) 2004 AED'000
Sale of investment properties to EREF	293,399	-
Redemption of EREF	18,365	-
Profit from Murabaha units with group holding company	34,990	6,415
Financing receivables	34,375	-
Deposits	6,137	-
Key Management Personal Compensations	4,465	2,449

29. SEGMENT REPORTING

The Bank's activities comprise the following main business segments:

Corporate

Within this business segment the Bank provides to corporate customers a range of Islamic products and services and accepts their deposits. This segment covers the Bank's investment properties, Murabaha and Mudaraba.

Retail

The retail segment provides a wide range of Islamic products and services to individuals and accepts their deposits.

Treasury

This segment mainly includes Murabaha deals with Emirates Bank International (PJSC).

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

29. SEGMENT REPORTING *(continued)*

	Corporate		Retail		Treasury		Total	
		(Restated)		(Restated)		(Restated)		(Restated)
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Income Statement								
Segment income	129,968	32,100	23,818	23,723	35,236	9,120	189,022	64,943
Treasury income	(13,513)	-	24,379	-	(10,866)	-	-	-
Total income	**116,455**	**32,100**	**48,197**	**23,723**	**24,370**	**9,120**	**189,022**	**64,943**
General and administrative expenses	(27,806)	(6,711)	(77,282)	(52,154)	-	(35)	(105,088)	(58,900)
Depreciation of investment Properties	(3,200)	-	-	-	-	-	(3,200)	-
Total expenses	**(31,006)**	**(6,711)**	**(77,282)**	**(52,154)**	**-**	**(35)**	**(108,288)**	**(58,900)**
Net operating income	85,449	25,389	(29,085)	(28,431)	24,370	9,085	80,734	6,043
Impairment Provisions net Of recoveries	5,214	1,722	1,361	14,801	-	-	6,575	16,523
	90,663	27,111	(27,724)	(13,630)	24,370	9,085	87,309	22,566
Depositors' share of profit for the period	(21,361)	(1052)	(22,868)	(1944)	-	-	(44,229)	(2,996)
Shareholders' share of profit For the period	**69,302**	**26,059**	**(50,592)**	**(15,574)**	**24,370**	**9,085**	**43,080**	**19,570**
Balance Sheet								
Assets								
Segment assets	2,446,943	599,068	775,235	99,042	1,046,391	1,583,489	4,268,569	2,281,599
Unallocated assets	-	-	-	-	-	-	499,908	64,045
Total assets	**2,446,943**	**599,068**	**775,235**	**99,042**	**1,046,391**	**1,583,489**	**4,768,477**	**2,345,644**
Liabilities								
Segment liabilities	1,719,776	433,757	1,918,756	800,760	-	212,835	3,638,532	1,447,352
Unallocated liabilities	-	-	-	-	-	-	1,129,945	898,292
Total liabilities	**1,719,776**	**433,757**	**1,918,756**	**800,760**	**-**	**212,835**	**4,768,477**	**2,345,644**

30. RISK MANAGEMENT

a) Credit risk and concentration of 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 attempts to control credit risk by monitoring credit exposure, limiting transactions with specific counterparties, and continually assessing the creditworthiness of the counterparties.
Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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 Bank's performance to develop affecting a particular industry or geographical location.
The Bank seeks to manage its credit risk exposure through diversification of financing and investing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. For the composition of financing receivables and loans and advances refer to note 13 and 14 respectively.
Details of the geographic distribution of risk assets and liabilities are set out in Schedule I.

b) Market risk

The Bank is not exposed to market risk in terms of profit margins as all deposit contracts are on the basis of Mudaraba contracts. The Bank, who is the Mudarib, has no commitment to the depositor in terms of profit. In case of loss the depositor, who is Rab Al Mal, bears the loss and the Mudarib loses his efforts. (refer to definitions- note 3).

c) 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 is not exposed to currency risks resulting from foreign currencies transactions undertaken by the Bank for its customers. Customers bear all currency risks as per the contractual terms. The Bank does not have any assets / liabilities in foreign currencies.
The Bank neither deals in derivatives such as forward foreign exchange contracts and foreign currency swaps nor undertakes any hedging transactions as this is considered to be contrary to Islamic Sharia.

d) Liquidity risk

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

The contractual 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 into account the effective maturities as indicated by the Bank's deposit retention history and the availability of funds.
The maturity profile is monitored by management to ensure adequate liquidity is maintained.
Details of maturity profile of the assets and liabilities of the Bank are set out in Schedule II.

31. FAIR VALUE

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Difference can therefore arise between book value under the historical cost method and fair value estimates.
The fair value of the Bank's financial instruments approximate to the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Bank's assets and liabilities is not materially different from the carrying value at 31 December 2005 for the reasons set out below:

a) Due from banks
Due from banks includes demand accounts with other banks.

b) Due from Group Holding Company
Due from Group Holding Company comprises the Bank's Murabaha and demand accounts. Murabaha contracts are short term and priced with reference to the market rates at the contractual date. The Murabaha is expected to be realized on maturity.

c) Financing activities
Financing activities are net of allowances for impairment.
25% of financing receivables are Ijarah. These facilities are given at a variable rate determined, generally, with reference to the market rates besides the usual parameters of tenor and risk evaluation.
The balance of the financing receivables portfolio comprises commodities and vehicles Murabaha. The average profit rate on these receivables at the year-end is in line with the rate charged for such financing in the local banking market.

d) Loans and receivables
Loans and receivables are net of allowances for impairment.
70% of the loans and advances portfolio were given, prior to transformation date, at a variable rate determined, generally, with reference to and market rates besides the usual parameters of tenor and risk evaluation.
The balance of loans and receivables are at fixed rates. The average profit rate on these receivables at the year-end is in line with the rate charged for such financing in the local banking market.

e) Other investments
Other investments comprise foreign quoted and local unquoted equity securities. The quoted equity securities are valued at fair value through profit and loss, and the unquoted securities are stated at cost less any provision for impairment. The assessment of the fair value of unquoted investments cannot be determined in an accurate measurement.

f) Investment properties
Investment properties are stated at cost. All investments properties were acquired in December 2005. The cost of these properties approximates their fair value.

g) Customer deposits
A significant portion of customer deposits comprise deposits with an original maturity, generally, of one to three months. A significant portion of these deposits has been maintained with the Bank for a number of years on a roll over basis.
The balance of the customer deposits primarily comprising profit bearing fixed deposit accounts, paid on quarterly basis, and non-profit bearing current accounts, repayable on demand.

h) Due to banks
Due to banks includes non-profit bearing current accounts payable on demand.

i) Other assets and liabilities
Other assets and liabilities primarily comprise assets and liabilities which are primarily short term in nature.

32. COMPARATIVE FIGURES

Certain prior year balances have been reclassified to conform to the current year presentation.

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

33. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

Schedule I

2005	GCC AED'000	Other Middle East AED'000	Europe AED'000	North America AED'000	Asia AED'000	Far East AED'000	Others AED'000	Total AED'000
ASSETS:								
Cash and deposits with UAE Central Bank	238,858	-	-	-	-	-	-	238,858
Due from banks and other financial institutions	2,057	302	5,153	86,395	456	488	237	95,088
Due from Group Holding Company	1,353,059	-	1,532	-	22	-	-	1,354,613
Loans and receivables	44,774	-	-	-	-	-	-	44,774
Financing receivables and investments	2,363,607	45,983	-	-	16,814	-	20,751	2,447,155
Other investments	293,340	-	-	-	-	-	-	293,340
Investments properties	128,729	-	-	-	-	-	-	128,729
Prepayment and other assets	141,747	-	279	1,939	-	-	-	143,965
Property and equipment	21,955	-	-	-	-	-	-	21,955
TOTAL ASSETS	**4,588,126**	**46,285**	**6,964**	**88,334**	**17,292**	**488**	**20,988**	**4,768,477**
LIABILITIES:								
Customers deposits	3,585,289	1,855	2,402	1,755	4,447	48	1,185	3,596,981
Due to banks and other financial institutions	17,805	-	-	3	-	124	-	17,932
Due from Group Holding Company	-	-	-	-	-	-	-	-
Other liabilities	295,495	-	-	-	-	-	-	295,495
Zakat payable	5,704	-	-	-	-	-	-	5,704
Shareholders' Equity	852,365	-	-	-	-	-	-	852,365
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,756,658**	**1,855**	**2,402**	**1,758**	**4,447**	**172**	**1,185**	**4,768,477**

33. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES (Continued)

2004	GCC AED'000	Other Middle East AED'000	Europe AED'000	North America AED'000	Asia AED'000	Far East AED'000	Others AED'000	Total AED'000
ASSETS:								
Cash and balances with UAE Central Bank	148,742	22	-	-	-	-	-	148,764
Due from banks and other financial institutions	1,195	313	7,868	9,091	232	637	509	19,845
Due from Group Holding Company	1,416,617	-	999	-	-	-	-	1,417,616
Financing receivables and investments	463,593	-	-	-	-	-	-	463,593
Loans and receivables	39,758	-	-	-	-	-	-	39,758
Other investments	339	-	-	-	-	-	-	339
Prepayments and other assets	70,713	34	838	1,422	-	-	-	73,007
Investment properties	172,455	-	-	-	-	-	-	172,455
Property and equipment	10,267	-	-	-	-	-	-	10,267
TOTAL ASSETS	**2,323,679**	**369**	**9,705**	**10,513**	**232**	**637**	**509**	**2,345,644**
LIABILITIES:								
Customers deposits	1,233,654	154	709	-	-	-	-	1,234,517
Due to banks and other financial institutions	1,347	-	-	13,421	-	-	-	14,768
Due to Group Holding Company	198,066	-	-	-	-	-	-	198,066
Other liabilities	79,892	-	-	-	-	-	-	79,892
Zakat payable	2,080	-	-	-	-	-	-	2,080
Shareholders' Equity	816,321	-	-	-	-	-	-	816,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,331,360**	**154**	**709**	**13,421**	**-**	**-**	**-**	**2,345,644**

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

34. MATURITY PROFILE OF ASSETS AND LIABILITIES

2005	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS:						
Cash and deposits with UAE Central Bank	238,858	-	-	-	-	238,858
Due from banks	95,088	-	-	-	-	95,088
Due from Group Holding Company	1,195,678	158,935	-	-	-	1,354,613
Financing receivables and investments	314,006	442,662	795,777	576,103	318,607	2,447,155
Loans and receivables	32,240	-	-	-	12,534	44,774
Other investments	-	293,001	339	-		293,340
Investment properties	-	128,729		-		128,729
Prepayment and other assets	143,965	-	-	-	-	143,965
Property and equipment	-	-	-	21,955	-	21,955
TOTAL ASSETS	**2,019,835**	**1,023,327**	**796,116**	**598,058**	**331,141**	**4,768,477**
LIABILITIES:						
Customer deposits	1,028,412	1,330,426	1,238,143	-	-	3,596,981
Due to banks and other financial institutions	17,932	-	-	-	-	17,932
Due to Group Holding Company	-	-	-	-	-	-
Other liabilities	295,495	-	-	-	-	295,495
Zakat payable	5,704	-	-	-	-	5,704
Shareholders' Equity	-	36,824	-	-	815,541	852,365
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,347,543**	**1,367,250**	**1,238,143**	**-**	**815,541**	**4,768,477**
Liquidity gap- DEC 2005	**672,292**	**(343,923)**	**(442,027)**	**598,058**	**(484,400)**	
Cumulative Liquidity gap- DEC 2005	**672,292**	**328,369**	**(113,658)**	**484,400**	**-**	

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

34. MATURITY PROFILE OF ASSETS AND LIABILITIES (Continued) **Schedule II**

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
2004						
ASSETS:						
Cash and balances with UAE Central Bank	148,764	-	-	-	-	148,764
Due from banks and other financial institutions	19,845	-	-	-	-	19,845
Due from Group Holding Company	1,417,616	-	-	-	-	1,417,616
Financing receivables and investments	139,673	149,580	99,986	62,269	12,085	463,593
Loans and receivables	17,177	325	1,830	20,426	-	39,758
Other investments	339	-	-	-	-	339
Prepayments and other assets	73,007	-	-	-	-	73,007
Investment properties	-	-	172,455	-	-	172,455
Property and equipment	-	-	-	-	10,267	10,267
TOTAL ASSETS	**1,816,421**	**149,905**	**274,271**	**82,695**	**22,352**	**2,345,644**
LIABILITIES:						
Customers deposits	728,751	505,766	-	-	-	1,234,517
Due to banks and other financial institutions	14,768	-	-	-	-	14,768
Due to Group Holding Company	198,066	-	-	-	-	198,066
Other liabilities	79,892	-	-	-	-	79,892
Zakat payable	2,080	-	-	-	-	2,080
Shareholders' Equity	144,539	-	-	-	671,782	816,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQITY	**1,168,096**	**505,766**	**-**	**-**	**671,782**	**2,345,644**
Liquidity gap- DEC 2004	**648,325**	**(355,861)**	**274,271**	**82,695**	**(649,430)**	
Cumulative Liquidity gap- DEC 2004	**648,325**	**292,464**	**566,735**	**649430**	**-**	