

Arab Emirates Investment Bank PJSC

FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2004

REPORT TO THE SHAREHOLDERS
For the year ended 31 December 2004

The directors have pleasure in placing before the shareholders the Annual Report for the year ended 31 December 2004.

The bank earned a profit of AED 11,448,306 as compared to AED 7,401,241 for the previous year. Funds under management for customers decreased during the year by 21% to AED 46,259,534. Deposits from customers increased during the year by 22% to AED 217,053,941.

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

	-
— Transfer to legal reserve in accordance with the requirements of article 58 (1) of the articles of association of the bank	1,144,830
— Transfer to special reserve in accordance with the requirements of article 58 (2) of the articles of association of the bank	1,144,830
— Proposed dividend @ 12%	4,902,288
— Directors' fees	150,000
— Transfer to investment reserve	2,587,123

Auditors

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

On behalf of the board

Khalid M S Al-Mulla
Chairman

____ March 2005

AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB EMIRATES INVESTMENT BANK PJSC

We have audited the accompanying balance sheet of Arab Emirates Investment Bank PJSC as of 31 December 2004, and the related statements of income, cash flows and changes in equity for the year then ended. 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.

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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that in our opinion proper books of account have been kept by the Bank and the contents of the report of the Board of Directors relating to these financial statements are 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 UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Bank have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Signed by
Edward B Quinlan
Partner
Registration No. 93

_____ March 2005

Dubai

Arab Emirates Investment Bank PJSC

INCOME STATEMENT

Year Ended 31 December 2004

	<i>Notes</i>	2004 AED	2003 AED
Interest income		1,939,467	1,683,032
Income from investments		17,733,585	12,770,323
		19,673,052	14,453,355
Interest expense		(5,062,479)	(4,089,949)
NET INTEREST AND INCOME FROM INVESTMENTS		14,610,573	10,363,406
Other income	3	1,572,539	1,360,772
OPERATING INCOME		16,183,112	11,724,178
General and administrative expenses	4	(4,535,328)	(4,109,918)
Other expenses		(199,478)	(213,019)
		(4,734,806)	(4,322,937)
NET PROFIT FOR THE YEAR		11,448,306	7,401,241
Basic earnings per share	5	27.66	17.86

The attached notes 1 to 26 form part of these financial statements.

Arab Emirates Investment Bank PJSC

BALANCE SHEET

At 31 December 2004

	Notes	2004 AED	2003 AED
ASSETS			
Cash and balances with U.A.E. Central Bank	6	4,775,748	3,122,926
Due from banks		41,532,202	44,393,194
Loans and advances	7	19,801,416	20,612,248
Investments	8	433,542,589	324,437,595
Fixed assets	9	499,845	474,526
Other assets	10	4,299,194	4,387,666
		<u>504,450,994</u>	<u>397,428,155</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		41,013,000	60,684,000
Customers' deposits		217,053,941	178,111,454
Other liabilities	11	4,620,937	3,855,347
		<u>262,687,878</u>	<u>242,650,801</u>
EQUITY			
Share capital	12	40,852,400	40,852,400
Legal reserve	12	11,829,296	10,684,466
Special reserve	12	4,132,145	2,987,315
Investment reserve	12	38,417,123	35,830,000
Cumulative changes in fair values	13	119,046,615	41,043,994
Retained earnings		22,583,249	18,476,891
Proposed dividend	12	4,902,288	4,902,288
		<u>241,763,116</u>	<u>154,777,354</u>
		<u>504,450,994</u>	<u>397,428,155</u>

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on ____ March 2005.

Khalid M S Al-Mulla
(Chairman)

Abdulla Omran Al Owais
(Director)

The attached notes 1 to 26 form part of these financial statements.

Arab Emirates Investment Bank PJSC

STATEMENT OF CASH FLOWS

Year Ended 31 December 2004

	2004 AED	2003 AED
OPERATING ACTIVITIES		
Net profit for the year	11,448,306	7,401,241
Adjustments for:		
Depreciation	162,502	134,398
Gain on sale of fixed assets	(18,470)	-
	<u>11,592,338</u>	<u>7,535,639</u>
Operating profit before changes in operating assets and liabilities:	11,592,338	7,535,639
Due from banks	19,823,400	(19,823,400)
Loans and advances	810,832	(8,578,372)
Other assets	88,472	(1,117,479)
Purchase of investments, net of maturities	(28,515,250)	(27,211,406)
Customers' deposits	38,942,487	35,954,100
Other liabilities	765,590	1,219,666
	<u>43,507,869</u>	<u>(12,021,252)</u>
Net cash from (used in) operating activities	43,507,869	(12,021,252)
INVESTING ACTIVITIES		
Purchase of fixed assets	(208,995)	(339,620)
Proceeds from sale of fixed assets	39,644	-
	<u>(169,351)</u>	<u>(339,620)</u>
Net cash used in investing activities	(169,351)	(339,620)
FINANCING ACTIVITIES		
Dividends paid	(4,902,288)	(4,085,240)
Directors' fees	(150,000)	(105,000)
	<u>(5,052,288)</u>	<u>(4,190,240)</u>
Net cash used in financing activities	(5,052,288)	(4,190,240)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,286,230	(16,551,112)
Cash and cash equivalents at 1 January	(32,991,280)	(16,440,168)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5,294,950	(32,991,280)
Cash and cash equivalents comprise the following balance sheet amounts:		
Cash and balances with the Central Bank	4,775,748	3,122,926
Deposits and other balances due from banks maturing within three months	41,532,202	24,569,794
Due to banks within three months	(41,013,000)	(60,684,000)
	<u>5,294,950</u>	<u>(32,991,280)</u>

The attached notes 1 to 26 form part of these financial statements.

Arab Emirates Investment Bank PJSC

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2004

	<i>Share capital AED</i>	<i>Legal reserve AED</i>	<i>Special reserve AED</i>	<i>Retained earnings AED</i>	<i>Investment reserve AED</i>	<i>Cumulative changes in fair values AED</i>	<i>Proposed cash dividend AED</i>	<i>Total AED</i>
Balance at 31 December 2003	40,852,400	9,944,342	2,247,191	17,563,186	28,994,058	(683,287)	4,085,240	103,003,130
Dividend paid	-	-	-	-	-	-	(4,085,240)	(4,085,240)
Portion of realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	6,835,942	-	-	-	6,835,942
Net profit for the year	-	-	-	7,401,241	-	-	-	7,401,241
Transfers for the year	-	740,124	740,124	(8,316,190)	6,835,942	-	-	-
Directors' fees	-	-	-	(105,000)	-	-	-	(105,000)
Proposed cash dividend (at 12%)	-	-	-	(4,902,288)	-	-	4,902,288	-
Net movement in cumulative changes in fair value	-	-	-	-	-	41,727,281	-	41,727,281
Balance at 1 January 2004	40,852,400	10,684,466	2,987,315	18,476,891	35,830,000	41,043,994	4,902,288	154,777,354
Dividend paid	-	-	-	-	-	-	(4,902,288)	(4,902,288)
Portion of realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	2,587,123	-	-	-	2,587,123
Net profit for the year	-	-	-	11,448,306	-	-	-	11,448,306
Transfers for the year	-	1,144,830	1,144,830	(4,876,783)	2,587,123	-	-	-
Directors' fees	-	-	-	(150,000)	-	-	-	(150,000)
Proposed cash dividend (at 12%)	-	-	-	(4,902,288)	-	-	4,902,288	-
Net movement in cumulative changes in fair value	-	-	-	-	-	78,002,621	-	78,002,621
Balance at 31 December 2004	40,852,400	11,829,296	4,132,145	22,583,249	38,417,123	119,046,615	4,902,288	241,763,116

The attached notes 1 to 26 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

1 INCORPORATION AND ACTIVITIES

The bank was incorporated in Dubai by a decree of HH The Ruler of Dubai as Arab Emirates Investment Bank Limited. In 1999, the bank was registered under the UAE Commercial Companies Law of 1984 (as amended) as a Public Joint Stock Company. The bank is engaged in development banking business and in investment banking and investment portfolio management. The address of the bank's registered office is P. O. Box 5503, Dubai, United Arab Emirates. The Bank had 11 employees at 31 December 2004 (2003: 13 employees).

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

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.

Loans and advances

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

Investments

These are classified as "available for sale".

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

After initial recognition, the investments are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity, along with any transition adjustment to retained earnings arising from initial adoption of IAS 39, is included in the income statement for the year.

Fair values

For investments and derivatives traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For unquoted investments, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on expected discounted cash flows.

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Fixed assets

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

Depreciation is provided on a straight-line basis over the estimated useful lives of all fixed assets. The rates of depreciation are based upon the following estimated useful lives:

Office furniture and equipment	4 years
Motor vehicles	4 years

The carrying amounts of fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If any such indication exists and where the carrying amounts 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.

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.

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.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the bank in the balance sheet.

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.

Revenue recognition

Interest receivable and payable is recognised on a time proportion basis, taking account of the principal outstanding and the rate applicable. Other fees and commissions receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into UAE Dirhams at the year end 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 original maturities of less than 90 days including cash and balances with the U.A.E. Central Bank and deposits and other balances due from banks.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Derivatives

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

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

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.

3 OTHER INCOME

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Fees and commission income	545,114	684,322
Portfolio management fee	532,781	430,982
Gain on foreign currencies	494,644	245,468
	<u>1,572,539</u>	<u>1,360,772</u>

4 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
General and administrative expenses include:		
Staff costs	2,508,045	2,252,509
Depreciation	162,502	134,398

5 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year, of AED 11,448,306 (2003: AED 7,401,241) net of directors' attendance fees of AED 150,000 (2003: AED 105,000) by the weighted average number of shares outstanding during the year of 408,524 (2003: 408,524).

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

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Cash in hand	20,062	370,314
Balances with U.A.E. Central Bank	4,755,686	2,752,612
	<u>4,775,748</u>	<u>3,122,926</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

7 LOANS AND ADVANCES

	2004 AED	2003 AED
Commercial and business:		
Loans (secured)	10,758,115	18,381,644
Overdrafts (unsecured)	9,043,301	2,230,604
	19,801,416	20,612,248

No provisions were considered necessary in respect of any of the loans and advances provided by the bank.

At 31 December 2004, 100% of the Bank's loans and advances were to customers within the UAE (2003: 100%).

8 INVESTMENTS

	2004 AED	2003 AED
Available for sale		
Quoted investments	404,751,968	295,646,974
Unquoted investments	28,790,621	28,790,621
	433,542,589	324,437,595

9 FIXED ASSETS

	<i>Furniture and equipment AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At beginning of year	803,421	629,300	1,432,721
Additions	76,295	132,700	208,995
Disposals	(78,659)	(78,000)	(156,659)
At end of year	801,057	684,000	1,485,057
Depreciation:			
At beginning of year	615,585	342,610	958,195
Charge for the year	72,952	89,550	162,502
Relating to disposals	(76,985)	(58,500)	(135,485)
At end of year	611,552	373,660	985,212
Net book values:			
At 31 December 2004	189,505	310,340	499,845
At 31 December 2003	187,836	286,690	474,526

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

10 OTHER ASSETS

	<i>2004 AED</i>	<i>2003 AED</i>
Interest receivable	2,401,708	2,818,128
Positive fair value of derivatives (note 14)	-	83,317
Other receivables and prepayments	1,897,486	1,486,221
	<u>4,299,194</u>	<u>4,387,666</u>

11 OTHER LIABILITIES

	<i>2004 AED</i>	<i>2003 AED</i>
Interest payable	658,210	598,775
Staff related provisions	249,281	275,259
Negative fair value of derivatives (note 14)	2,153,776	1,270,938
Other	1,559,670	1,710,375
	<u>4,620,937</u>	<u>3,855,347</u>

12 EQUITY

a) Share capital

The authorised share capital of the bank comprises 800,000 ordinary shares of AED 100 each (2003: 800,000 ordinary shares of AED 100 each). The issued and fully paid share capital of the bank comprises 408,524 ordinary shares of AED 100 each (2003: 408,524 ordinary shares of AED 100 each).

b) Legal reserve

In accordance with Article 82 of Union Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and the Articles of Association of the bank, 10% of the net profit for the year has been transferred to legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

c) Special reserve

As required under Article 192 of the UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the bank, 10% of the net profit for the year has been transferred to a special reserve. The bank may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution.

d) Dividends

The directors have proposed a cash dividend amounting to AED 4,902,288 at AED 12 per share of AED 100 each (2003: AED 4,902,288 - at AED 12 per share of AED 100 each). This is subject to the approval of the shareholders at the Annual General Assembly to be held during March 2005 as well as approval of the regulatory authorities.

e) Investment reserve

The directors have also proposed to transfer an amount of AED 2,587,123 (2003: AED 6,835,942) to the investment reserve. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

13 CUMULATIVE CHANGES IN FAIR VALUES

	2004 AED	2003 AED
Available for sale investments		
At 1 January	41,043,994	(683,287)
Net movement in fair values during the year	78,002,621	41,727,281
At 31 December	119,046,615	41,043,994

14 DERIVATIVES

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

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. 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 and are neither indicative of the market risk or credit risk.

	2004		2003		
	Positive	Negative	Notional	Positive	Negative
	fair	fair	amount	fair	fair
	value	value	Total	value	value
	AED	AED	AED	AED	AED
Forward foreign exchange contracts	-	2,153,776	140,241,907	83,317	1,270,938
	<u>-</u>	<u>2,153,776</u>	<u>140,241,907</u>	<u>83,317</u>	<u>1,270,938</u>

Derivative product types

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

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. 100% (2003: 100%) of the bank's derivative contracts are entered into with other financial institutions.

Purpose of derivatives

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

15 CONTINGENT LIABILITIES AND COMMITMENTS

Credit-related commitments

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

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

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

The bank has the following credit related commitments:

	2004	2003
	AED	AED
<i>Contingent liabilities:</i>		
Letters of credit	9,936,146	15,785,876
Guarantees and acceptances	3,614,298	3,663,202
	13,550,444	19,449,078
<i>Commitments:</i>		
Irrevocable commitment to extend credit	62,366,645	31,809,681

16 CURRENCY RISK

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

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

	2004	2003
	AED	AED
US Dollar	137,997,000	132,519,000
Euro	26,640,000	25,670,000
Canadian Dollar	3,170,000	2,894,000
Pound Sterling	3,060,000	2,585,000
Australian Dollar	727,000	707,000
Danish Kroner	197,000	-
Swiss Franc	124,000	-

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

17 RELATED PARTY TRANSACTIONS

The bank enters into transactions with major shareholders, directors 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.

The year end balances in respect of related parties included in the financial statements are as follows:

	2004	2003
	AED	AED
Loans and advances	19,043,301	12,237,523
Customers' deposits	33,328,495	33,305,161
Commitments and contingencies	49,236,699	49,052,909
Interest income	973,582	757,203
Interest expense	872,874	639,448
Commission and fees	408,172	512,750

18 SEGMENTAL INFORMATION

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

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Interest and other income	2,723,145	2,306,938	18,522,446	13,507,189	21,245,591	15,814,127
Inter-segment adjustment	4,422,828	3,587,606	(4,422,828)	(3,587,606)	-	-
	7,145,973	5,894,544	14,099,618	9,919,583	21,245,591	15,814,127
Net profit for the year	1,417,440	1,039,298	10,030,866	6,361,943	11,448,306	7,401,241

	<i>Development Banking</i>		<i>Investment Banking</i>		<i>Total</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
Segment assets	68,711,052	70,357,349	435,739,942	327,070,806	504,450,994	397,428,155
Segment liabilities and equity	262,687,878	242,650,812	241,763,116	154,777,343	504,450,994	397,428,155

For operational and management reporting purposes the bank is organised as one geographical segment. Consequently, no secondary segment information is required to be provided. Information on the geographical concentrations of assets, liabilities and off-balance sheet items is provided in note 20.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

19 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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

For details of the composition of the loans and advances portfolio refer to note 7. For a geographical distribution of assets, liabilities and off balance sheet items refer to note 20.

20 CONCENTRATION OF ASSETS, LIABILITIES AND OFF-BALANCE SHEET ITEMS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. The distribution of assets, liabilities and off-balance sheet items by geographic region and industry sector was as set out below. The distribution by geographical region is based on the location of the assets, liabilities and off-balance sheet items. Off-balance sheet items at 31 December include the notional amounts of derivative financial instruments.

	2004			2003		
	<i>Assets</i>	<i>Equity and</i>	<i>Contingent</i>	<i>Assets</i>	<i>Equity and</i>	<i>Contingent</i>
	<i>AED</i>	<i>Liabilities</i>	<i>liabilities and</i>	<i>AED</i>	<i>Liabilities</i>	<i>liabilities and</i>
		<i>AED</i>	<i>derivatives</i>		<i>AED</i>	<i>derivatives</i>
			<i>AED</i>			<i>AED</i>
Geographic area:						
United Arab Emirates	315,599,302	504,450,994	153,792,351	206,677,572	397,428,155	58,630,538
North America	42,859,558	-	-	42,631,744	-	-
Latin America	28,809,139	-	-	33,691,427	-	-
Europe	31,677,778	-	-	29,261,508	-	-
Asia Pacific	71,224,347	-	-	64,761,681	-	-
Africa	12,064,211	-	-	18,311,462	-	-
Australia	2,216,659	-	-	2,092,761	-	-
	<u>504,450,994</u>	<u>504,450,994</u>	<u>153,792,351</u>	<u>397,428,155</u>	<u>397,428,155</u>	<u>58,630,538</u>

	2004			2003		
	<i>Assets</i>	<i>Equity and</i>	<i>Contingent</i>	<i>Assets</i>	<i>Equity and</i>	<i>Contingent</i>
	<i>AED</i>	<i>Liabilities</i>	<i>liabilities and</i>	<i>AED</i>	<i>Liabilities</i>	<i>liabilities and</i>
		<i>AED</i>	<i>derivatives</i>		<i>AED</i>	<i>derivatives</i>
			<i>AED</i>			<i>AED</i>
Customer groups:						
Commercial and business	196,154,101	189,174,878	13,550,444	164,199,186	156,966,812	19,449,078
Banks and financial institutions	257,850,187	73,513,000	140,241,907	168,804,329	85,684,000	39,181,460
Government entities	45,647,666	-	-	59,562,448	-	-
Others	4,799,040	241,763,116	-	4,862,192	154,777,343	-
	<u>504,450,994</u>	<u>504,450,994</u>	<u>153,792,351</u>	<u>397,428,155</u>	<u>397,428,155</u>	<u>58,630,538</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

21 MARKET RISK

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

22 EQUITY PRICE RISK

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

23 INTEREST RATE RISK

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

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:

	<i>Effective interest rate %</i>	<i>Upto three months AED</i>	<i>Over three months to six months AED</i>	<i>Over six months to one year AED</i>	<i>Over one year to five years AED</i>	<i>Over five years AED</i>	<i>Not exposed to interest rate risk AED</i>	<i>Total AED</i>
Cash and balances								
with the Central Bank	-	-	-	-	-	-	4,775,748	4,775,748
Due from banks	1.95%-2.375%	41,532,202	-	-	-	-	-	41,532,202
Loans and advances	3.5%-6.75%	19,801,416	-	-	-	-	-	19,801,416
Investments	1.95%-12.75%	2,473,869	2,619,434	4,415,156	58,297,327	43,662,035	322,074,768	433,542,589
Fixed assets	-	-	-	-	-	-	499,845	499,845
Other assets	-	-	-	-	-	-	4,299,194	4,299,194
Total assets		63,807,487	2,619,434	4,415,156	58,297,327	43,662,035	331,649,555	504,450,994
Due to banks	2.23-2.45%	41,013,000	-	-	-	-	-	41,013,000
Customers' deposits	1.25%-5%	162,043,683	2,862,772	52,139,986	7,500	-	-	217,053,941
Other liabilities	-	-	-	-	-	-	4,620,937	4,620,937
Shareholders' equity	-	-	-	-	-	-	241,763,116	241,763,116
Total liabilities and shareholders' funds		203,056,683	2,862,772	52,139,986	7,500	-	246,384,053	504,450,994
Total interest rate sensitivity gap		(139,249,196)	(243,338)	(47,724,830)	58,289,827	43,662,035	85,265,502	
Cumulative interest rate sensitivity gap		(139,249,196)	(139,492,534)	(187,217,364)	(128,927,537)	(85,265,502)	-	

Arab Emirates Investment Bank PJSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

23 INTEREST RATE RISK – continued

The bank's interest rate sensitivity position as at 31 December 2003, based on the contractual repricing or maturity dates, whichever dates are earlier, is as follows:

	<i>Effective interest rate %</i>	<i>Upto three months AED</i>	<i>Over three months to six months AED</i>	<i>Over six months to one year AED</i>	<i>Over one year to five years AED</i>	<i>Over five years AED</i>	<i>Not exposed to interest rate risk AED</i>	<i>Total AED</i>
Cash and balances with the Central Bank	-	-	-	-	-	-	3,122,926	3,122,926
Due from banks	1.125%-2%	24,569,794	-	19,823,400	-	-	-	44,393,194
Loans and advances	4.25%-9%	20,612,248	-	-	-	-	-	20,612,248
Investments	4.9%-12.75%	2,990,390	-	2,855,731	55,773,846	61,132,932	201,684,696	324,437,595
Fixed assets	-	-	-	-	-	-	474,526	474,526
Other assets	-	-	-	-	-	-	4,387,666	4,387,666
Total assets		48,172,432	-	22,679,131	55,773,846	61,132,932	209,669,814	397,428,155
Due to banks	1.0625%-1.25%	60,684,000	-	-	-	-	-	60,684,000
Customers' deposits	0.75%-3.375%	104,955,800	22,104,628	51,039,226	11,800	-	-	178,111,454
Other liabilities	-	-	-	-	-	-	3,855,347	3,855,347
Shareholders' equity	-	-	-	-	-	-	154,777,354	154,777,354
Total liabilities and shareholders' funds		165,639,800	22,104,628	51,039,226	11,800	-	158,632,701	397,428,155
Total interest rate sensitivity gap		(117,467,368)	(22,104,628)	(28,360,095)	55,762,046	61,132,932	51,037,113	
Cumulative interest rate sensitivity gap		(117,467,368)	(139,571,996)	(167,932,091)	(112,170,045)	(51,037,113)	-	

24 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 assets and liabilities at 31 December 2004 was as follows:

	<i>Total AED</i>	<i>Up to 3 months AED</i>	<i>Over 3 months to 6 months AED</i>	<i>Over 6 months to 1 year AED</i>	<i>Over 1 year AED</i>	<i>Items with no maturity AED</i>
Cash and balances with Central Bank	4,775,748	4,775,748	-	-	-	-
Due from banks	41,532,202	41,532,202	-	-	-	-
Loans and advances	19,801,416	19,801,416	-	-	-	-
Investments	433,542,589	295,758,017	2,619,434	4,415,156	130,749,982	-
Fixed assets	499,845	-	-	-	-	499,845
Other assets	4,299,194	4,299,194	-	-	-	-
Total assets	504,450,994	366,166,577	2,619,434	4,415,156	130,749,982	499,845
Due to banks	41,013,000	41,013,000	-	-	-	-
Customers' deposits	217,053,941	162,043,683	2,862,772	52,139,986	7,500	-
Other liabilities	4,620,937	4,620,937	-	-	-	-
Shareholder's equity	241,763,116	-	4,902,288	-	-	236,860,828
Total liabilities and shareholders' funds	504,450,994	207,677,620	7,765,060	52,139,986	7,500	236,860,828

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

24 LIQUIDITY RISK - continued

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

	<i>Total AED</i>	<i>Up to 3 months AED</i>	<i>Over 3 months to 6 months AED</i>	<i>Over 6 months to 1 year AED</i>	<i>Over 1 year AED</i>	<i>Items with no maturity AED</i>
Cash and balances with Central Bank	3,122,926	3,122,926	-	-	-	-
Due from banks	44,393,194	24,569,794	-	19,823,400	-	-
Loans and advances	20,612,248	20,612,248	-	-	-	-
Investments	324,437,595	175,884,466	-	2,855,731	145,697,398	-
Fixed assets	474,526	-	-	-	-	474,526
Other assets	4,387,666	4,387,666	-	-	-	-
Total assets	397,428,155	228,577,100	-	22,679,131	145,697,398	474,526
Due to banks	60,684,000	60,684,000	-	-	-	-
Customers' deposits	178,111,454	104,955,800	22,104,628	51,039,226	11,800	-
Other liabilities	3,855,347	3,855,347	-	-	-	-
Shareholder's equity	154,777,354	-	4,902,288	-	-	149,875,066
Total liabilities and shareholders' funds	397,428,155	169,495,147	27,006,916	51,039,226	11,800	149,875,066

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.

25 FIDUCIARY ASSETS

	<i>2004 AED</i>	<i>2003 AED</i>
Balance as at 31 December	46,259,534	58,249,838

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

26 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 assets and liabilities is not materially different from the carrying values at year end, since assets and liabilities are either short-term in nature, valued using market prices or in the case of loans and advances and deposits, frequently repriced. The fair value of the bank's off-balance sheet financial instruments is shown in note 14.