Arab Emirates Investment Bank PJSC

FINANCIAL STATEMENTS AND REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2005

REPORT OF THE BOARD OF DIRECTORS
For the year ended 31 December 2005

The directors have pleasure in placing before the shareholders the Annual Report for the year ended 31 December 2005.

The bank earned a profit of AED 24,287,352 as compared to AED 11,448,306 for the previous year. Funds under management for customers increased during the year by 181% to AED 129,806,358. Deposits from customers decreased during the year by 7 % to AED 202,301,288.

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	2,428,735
– Transfer to special reserve in accordance with the requirements of article 58 (2) of the articles of association of the bank	2,428,735
– Proposed cash dividend @ 15%	6,127,860
– Proposed scrip dividend @ 10%	4,085,240
– Directors' fees	150,000

Auditors

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

On behalf of the board

Khalid M S Al-Mulla
Chairman

6 March 2006

REPORT OF THE AUDITORS 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 2005, 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 2005 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

6 March 2006

Dubai

INCOME STATEMENT
Year ended 31 December 2005

	Notes	***2005 AED***	*2004 AED*
Interest income		**2,156,081**	1,939,467
Income from investments		**33,883,709**	17,733,585
		36,039,790	19,673,052
Interest expense		**(8,041,555)**	(5,062,479)
NET INTEREST INCOME AND INCOME FROM INVESTMENTS		**27,998,235**	14,610,573
Other income	4	**1,325,341**	1,572,539
		29,323,576	16,183,112
General and administrative expenses	5	**(4,755,579)**	(4,535,328)
Other expenses		**(280,645)**	(199,478)
		(5,036,224)	(4,734,806)
NET PROFIT FOR THE YEAR		**24,287,352**	11,448,306
Basic earnings per share	6	**59.08**	27.66

The attached notes 1 to 28 form part of these financial statements.

BALANCE SHEET
At 31 December 2005

	Notes	***2005 AED***	*2004 AED*
ASSETS			
Cash and balances with Central Bank	7	**1,598,762**	4,775,748
Due from banks		**35,098,113**	41,532,202
Loans and advances	8	**10,251,975**	19,801,416
Securities	9	**590,009,547**	433,542,589
Fixed assets	10	**501,668**	499,845
Other assets	11	**3,124,776**	4,299,194
TOTAL ASSETS		**640,584,841**	504,450,994
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**42,190,500**	41,013,000
Customers' deposits		**202,301,288**	217,053,941
Other liabilities	12	**3,214,391**	4,620,937
		247,706,179	262,687,878
EQUITY			
Share capital	13	**40,852,400**	40,852,400
Legal reserve	13	**14,258,031**	11,829,296
Special reserve	13	**6,560,880**	4,132,145
Cumulative changes in fair values	15	**292,862,678**	160,982,196
Retained earnings		**28,131,573**	19,064,791
Proposed cash dividend	14	**6,127,860**	4,902,288
Proposed scrip dividend	14	**4,085,240**	-
TOTAL SHAREHOLDERS' FUNDS		**392,878,662**	241,763,116
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**640,584,841**	504,450,994

The financial statements were authorised for issue in accordance with a resolution of the directors on 6 March 2006.

Khalid M S Al-Mulla (Chairman)	Abdulla Omran Al Owais (Director)

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2005

	2005	*2004*
	AED	*AED*
OPERATING ACTIVITIES		
Net profit for the year	**24,287,352**	11,448,306
Adjustments for:		
Depreciation	**208,891**	162,502
Profit on sale of fixed assets	**(600)**	(18,470)
Operating profit before changes in operating assets and liabilities:	**24,495,643**	11,592,338
Due from banks	**-**	19,823,400
Loans and advances	**9,549,441**	810,832
Other assets	**1,174,418**	88,472
Purchase of securities, net of maturities	**(24,586,476)**	(28,515,250)
Customers' deposits	**(14,752,653)**	38,942,487
Other liabilities	**(1,406,546)**	765,590
Net cash (used in) from operating activities	**(5,526,173)**	43,507,869
INVESTING ACTIVITIES		
Purchase of fixed assets	**(210,714)**	(208,995)
Proceeds from sale of fixed assets	**600**	39,644
Net cash used in investing activities	**(210,114)**	(169,351)
FINANCING ACTIVITIES		
Dividends paid	**(4,902,288)**	(4,902,288)
Directors' fees	**(150,000)**	(150,000)
Net cash used in financing activities	**(5,052,288)**	(5,052,288)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(10,788,575)**	38,286,230
Cash and cash equivalents at 1 January	**5,294,950**	(32,991,280)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**(5,493,625)**	5,294,950

Cash and cash equivalents comprise the following balance sheet amounts with original maturities of three months or less:

Cash and balances with Central Bank	**1,598,762**	4,775,748
Due from banks	**35,098,113**	41,532,202
Due to banks	**(42,190,500)**	(41,013,000)
	(5,493,625)	5,294,950

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2005

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

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2005

	Share capital AED	*Legal reserve AED*	*Special reserve AED*	*Investment reserve AED*	*Cumulative changes in fair values AED*	*Retained earnings AED*	*Proposed cash dividend AED*	*Total AED*
At 1 January 2004 (as previously stated)	40,852,400	10,684,466	2,987,315	35,830,000	41,043,994	18,476,891	4,902,288	154,777,354
Adjustment arising from the application IAS 39 revised	-	-	-	(35,830,000)	39,348,458	(3,518,458)	-	-
At 1 January 2004 (restated)	40,852,400	10,684,466	2,987,315	-	80,392,452	14,958,433	4,902,288	154,777,354
Net movement in cumulative changes in fair values recognised directly in equity	-	-	-	-	80,589,744	-	-	80,589,744
Net profit for the year	-	-	-	-	-	11,448,306	-	11,448,306
Total income for the year	-	-	-	-	80,589,744	11,448,306	-	92,038,050
Dividends paid - 2003	-	-	-	-	-	-	(4,902,288)	(4,902,288)
Transfers	-	1,144,830	1,144,830	-	-	(2,289,660)	-	-
Directors' fees	-	-	-	-	-	(150,000)	-	(150,000)
Proposed cash dividend – 2004 (12%)	-	-	-	-	-	(4,902,288)	4,902,288	-
Balance at 31 December 2004	40,852,400	11,829,296	4,132,145	-	160,982,196	19,064,791	4,902,288	241,763,116

The attached notes 1 to 28 form part of these financial statements.

1 INCORPORATION AND ACTIVITIES

Arab Emirates Investment Bank PJSC (the Bank) was incorporated on 17 February 1976 in Dubai by a decree of Late HH Shaikh Rashid Bin Saeed Al Maktoum, 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 employed 14 employees as of 31 December 2005 (2004: 14).

2 BASIS OF PREPARATION

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

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

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

Changes in accounting policies
The accounting policies, with the exception of the adoption of the revised version of IAS 32 and IAS 39, are consistent with those used in the previous year.

Adoption of revised version of IAS 32 and IAS 39

The Bank has adopted the revised versions of IAS 32 and IAS 39 which have become mandatory for financial years beginning on or after 1 January 2005. The principal effects of these changes in policies are as follows:

Investments carried at fair value through income statement
The Bank now classifies non-trading investments upon initial recognition into the following four categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through income statement
- Investments carried at amortised cost

The Bank did not reclassify any of its non-trading investments into the category "investments carried at fair value through income statement" and as at the year end, the Bank did not have any non-trading investment classified in that category.

Transition adjustment
In accordance with IAS 39, the unrecycled adjustment to retained earnings relating to fair values of available for sale investments, arising on the adoption of IAS 39, has been reclassified from retained earnings to "cumulative changes in fair value" as a separate component of equity.

Derecognition of financial assets
With effect from 1 January 2005 a financial asset (in whole or in part) is derecognised when the Bank has either transferred substantially all the risks and rewards of ownership or when it no longer has control over the asset or a proportion of the asset.

2 BASIS OF PREPARATION - continued

Significant management judgements and estimates

Use of estimates:
The preparation of the financial statements requires management to make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenues, expenses, disclosure of contingent liabilities and the resultant provisions and fair value for the year. Such estimates are necessarily based on assumptions about several factors and actual results may differ from reported amounts as described below:

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

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

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

All other investments are classified as available for sale.

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES - continued

Loans and advances
Loans and advances are stated at amortised cost net of provisions for impairment and any amounts written off.

Non-trading investments
These are classified as "available for sale".

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

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

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

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

For unquoted equity investments, fair value is determined by reference to the current market value of a similar investment, 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.

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

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

Furniture and equipment	4 years
Motor vehicles	4 years

The carrying values of 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 less amounts repaid.

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

3 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

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

If such evidence exists, 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.

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

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.

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

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

4 OTHER INCOME

	2005 AED	2004 AED
Fees and commission income	**498,572**	545,114
Portfolio management fee	**837,348**	532,781
Net (loss) gain on foreign currencies	**(10,579)**	494,644
	1,325,341	1,572,539

5 GENERAL AND ADMINISTRATIVE EXPENSES

	2005 AED	2004 AED
General and administrative expenses include:		
Staff costs	**2,696,861**	2,508,045
Depreciation	**208,891**	162,502

6 BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year, net of directors' fees, of AED 24,137,352 (2004: AED 11,298,306) by the weighted average number of shares outstanding during the year of 408,524 of AED 100 each (2004: 408,524 shares of AED 100 each).

7 CASH AND BALANCES WITH CENTRAL BANK

	2005 AED	2004 AED
Cash in hand	**20,232**	20,062
Balances with Central Bank:		
Current account	**83,751**	85,335
Reserve requirements	**1,494,779**	4,670,351
	1,598,762	4,775,748

8 LOANS AND ADVANCES

	2005	*2004*
	AED	*AED*
Commercial and business:		
Loans (secured)	**93,794**	10,758,115
Overdrafts (unsecured)	**10,158,181**	9,043,301
	10,251,975	19,801,416

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

At 31 December 2005, 100% of the Bank's loans and advances were to customers within the UAE (2004: 100%).

9 SECURITIES

	2005	*2004*
	AED	*AED*
Non trading		
Available for sale		
Debt		
Quoted	**52,270,926**	111,467,822
Equity		
Quoted	**507,231,927**	293,284,147
Unquoted	**30,506,694**	28,790,620
	537,738,621	322,074,767
Total	**590,009,547**	433,542,589

10 FIXED ASSETS

	Furniture and equipment AED	*Motor vehicles AED*	*Total AED*
Cost:			
At 1 January 2005	801,057	684,000	1,485,057
Additions	91,064	119,650	210,714
Disposals	(151,804)	(8,100)	(159,904)
At 31 December 2005	740,317	795,550	1,535,867
Depreciation:			
At 1 January 2005	611,552	373,660	985,212
Charge for the year	84,809	124,082	208,891
Relating to disposals	(151,804)	(8,100)	(159,904)
At 31 December 2005	544,557	489,642	1,034,199
Net book values:			
At 31 December 2005	**195,760**	**305,908**	**501,668**
At 31 December 2004	189,505	310,340	499,845

11 OTHER ASSETS

	2005	*2004*
	AED	*AED*
Interest receivable	**1,261,032**	2,401,708
Other receivables and prepayments	**1,863,744**	1,897,486
	3,124,776	4,299,194

12 OTHER LIABILITIES

	2005	*2004*
	AED	*AED*
Interest payable	**934,511**	658,210
Staff related provisions	**301,015**	249,281
Negative fair value of derivatives (note 16)	**-**	2,153,776
Other	**1,978,865**	1,559,670
	3,214,391	4,620,937

13 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 800,000 ordinary shares of AED 100 each (2004: 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 (2004: 408,524 ordinary shares of AED 100 each).

b) Legal reserve

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

c) Special reserve

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

d) Investment reserve

The entire balance in the investment reserve has been transferred back to the retained earnings.

14 DIVIDENDS PAID AND PROPOSED

Dividends of AED 12 per share (totalling AED 4,902,288) relating to the year 2004 were declared and paid during the year. During 2004, dividends of AED 12 per share (totalling AED 4,902,288) relating to the year 2003 were declared and paid.

The Board of Directors has proposed a cash dividend amounting to AED 6,127,860 at AED 15 per share of AED 100 each and a scrip dividend amounting to AED 4,085,240 at AED 10 per share of AED 100 each for the year 2005. This is subject to the approval of the shareholders at the Annual General Meeting to be held during April 2006.

15 CUMULATIVE CHANGES IN FAIR VALUES

	2005 *AED*	*2004* *AED*
Available for sale investments		
At 1 January (as previously stated)	**119,046,615**	41,043,994
Adjustment on adoption of IAS 39 (revised)	**41,935,581**	39,348,458
Balance as at 1 January (restated)	**160,982,196**	80,392,452
Net movement in fair values during the year	**131,880,482**	80,589,744
At 31 December	**292,862,678**	160,982,196

16 DERIVATIVES

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

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk or credit risk.

31 December 2005

				Notional amounts by term to maturity		
	Positive fair value AED	*Negative fair value AED*	*Notional amount AED*	*Within 3 months AED*	*3-12 months AED*	*1-5 years AED*
Forward foreign exchange contracts	**-**	**60,000**	**110,190,100**	**110,190,100**	**-**	**-**

As at 31 December 2005, the forward foreign exchange contracts relate to AED/USD contracts and as a result the positive and negative fair value of the forward foreign exchange contracts are negligible.

16 DERIVATIVES - continued

31 December 2004

	Positive fair value AED	*Negative fair value AED*	*Notional amount AED*	*Notional amounts by term to maturity* *Within 3 months AED*	*3-12 months AED*	*1-5 year AED*
Forward foreign exchange contracts	-	2,153,776	140,241,907	140,241,907	-	-

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% (2004: 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.

17 COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

17 COMMITMENTS AND CONTINGENT LIABILITIES - continued

The Bank has the following credit related commitments:

	2005 *AED*	*2004* *AED*
Contingent liabilities:		
Letters of credit	**15,906,533**	9,936,146
Guarantees and acceptances	**4,832,303**	3,614,298
	20,738,836	13,550,444
Commitments:		
Irrevocable commitment to extend credit:		
Original term to maturity of one year or less	**-**	-
Original term to maturity of more than one year	**45,107,602**	62,366,645
	45,107,602	62,366,645

18 RELATED PARTY TRANSACTIONS

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

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

	2005 *AED*	*2004* *AED*
Directors, their related parties and key management personnel:		
Loans and advances	**10,158,582**	19,043,301
Customers' deposits	**20,000,000**	33,328,495
Commitments and contingencies	**64,850,638**	49,236,699

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

	2005 *AED*	*2004* *AED*
Directors, their related parties and key management personnel:		
Interest income	**1,134,455**	973,582
Interest expenses	**781,894**	872,874
Commission and fees	**489,855**	408,172

Compensation of key management personnel:

	2005 *AED*	*2004* *AED*
Salaries and other benefits	**1,772,614**	1,661,981

19 SEGMENTAL INFORMATION

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

	Development Banking		*Investment Banking*		*Total*	
	2005	*2004*	*2005*	*2004*	*2005*	*2004*
	AED	*AED*	*AED*	*AED*	*AED*	*AED*
Interest and other income	**2,644,076**	2,723,145	**34,721,055**	18,522,446	**37,365,131**	21,245,591
Inter-segment adjustment	**6,806,519**	4,422,828	**(6,806,519)**	(4,422,828)	**-**	-
	9,450,595	7,145,973	**27,914,536**	14,099,618	**37,365,131**	21,245,591
Net profit for the year	**1,021,667**	1,417,440	**23,265,685**	10,030,866	**24,287,352**	11,448,306

	Development Banking		*Investment Banking*		*Total*	
	2005	*2004*	*2005*	*2004*	*2005*	*2004*
	AED	*AED*	*AED*	*AED*	*AED*	*AED*
Segment assets	**49,486,985**	68,711,052	**591,097,856**	435,739,942	**640,584,841**	504,450,994
Segment liabilities and equity	**247,706,179**	262,687,878	**392,878,662**	241,763,116	**640,584,841**	504,450,994

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 21.

20 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 8. For a geographical distribution of assets, liabilities and off balance sheet items refer to note 21.

21 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.

	2005			*2004*		
	Assets AED	***Liabilities and equity AED***	***Contingent liabilities and derivatives AED***	*Assets AED*	*Liabilities and equity AED*	*Contingent liabilities and derivatives AED*
Geographic area:						
United Arab Emirates	**461,727,573**	**640,584,841**	**130,928,936**	315,599,302	504,450,994	153,792,351
North America	**40,186,765**	-	-	42,859,558	-	-
Latin America	**15,412,038**	-	-	28,809,139	-	-
Europe	**33,692,184**	-	-	31,677,778	-	-
Asia Pacific	**83,639,256**	-	-	71,224,347	-	-
Africa	**5,240,406**	-	-	12,064,211	-	-
Australia	**686,619**	-	-	2,216,659	-	-
	640,584,841	**640,584,841**	**130,928,936**	504,450,994	504,450,994	153,792,351

	2005			*2004*		
	Assets AED	***Liabilities and equity AED***	***Contingent liabilities and derivatives AED***	*Assets AED*	*Liabilities and equity AED*	*Contingent liabilities and derivatives AED*
Industry sector:						
Commercial and business	**252,140,253**	**185,015,679**	**20,738,836**	196,154,101	189,174,878	13,550,444
Banks and financial institutions	**361,390,025**	**62,690,500**	**110,190,100**	257,673,495	73,513,000	140,241,907
Government entities	**23,428,119**	-	**-**	45,824,358	-	-
Others	**3,626,444**	**392,878,662**	**-**	4,799,040	241,763,116	-
	640,584,841	**640,584,841**	**130,928,936**	504,450,994	504,450,994	153,792,351

22 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.

23 EQUITY PRICE RISK

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

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 reprice in a given period. The Bank manages this risk through risk management strategies.

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

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

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

24 INTEREST RATE RISK – continued

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*	*Over three months to six months AED*	*Over six months to one year AED*	*Over one year to five years AED*	*Over five years AED*	*Not exposed to interest rate risk AED*	*Total AED*
ASSETS								
Cash and balances with 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
Securities	1.95%-12.75%	2,473,869	2,619,434	4,415,156	58,297,327	43,662,036	322,074,767	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	43,662,036	331,649,554	504,450,994
LIABILITIES AND SHAREHOLDERS' FUNDS								
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' funds	-	-	-	-	-	-	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	43,662,036	85,265,501	
Cumulative interest rate sensitivity gap		(139,249,196)	(139,492,534)	(187,217,364)	(128,927,537)	(85,265,501)	-	

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

	2005 AED	*2004 AED*
US Dollar	**99,113,470**	137,997,000
Pak Rupees	**10,400,351**	-
Euro	**8,888,002**	26,640,000
Australian Dollar	**726,986**	727,000
Pound Sterling	**696,608**	3,060,000
Swiss Franc	**148,778**	124,000
Danish Kroner	**109,948**	197,000
Canadian Dollar	**-**	3,170,000

The AED/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 2005 was as follows:

	Total AED	***Up to 3 months AED***	***Over 3 months to 6 months AED***	***Over 6 months to 1 year AED***	***Over 1 year AED***	***Items with no maturity AED***
ASSETS						
Cash and balances with Central Bank	**1,598,762**	**1,598,762**	**-**	**-**	**-**	**-**
Due from banks	**35,098,113**	**35,098,113**	**-**	**-**	**-**	**-**
Loans and advances	**10,251,975**	**10,251,975**	**-**	**-**	**-**	**-**
Securities	**590,009,547**	**608,755**	**-**	**930,204**	**50,731,967**	**537,738,621**
Fixed assets	**501,668**	**-**	**-**	**-**	**-**	**501,668**
Other assets	**3,124,776**	**3,124,776**	**-**	**-**	**-**	**-**
Total assets	**640,584,841**	**50,682,381**	**-**	**930,204**	**50,731,967**	**538,240,289**
LIABILITIES AND SHAREHOLDERS' FUNDS						
Due to banks	**42,190,500**	**42,190,500**	**-**	**-**	**-**	**-**
Customers' deposits	**202,301,288**	**145,037,092**	**16,169,714**	**41,094,482**	**-**	**-**
Other liabilities	**3,214,391**	**3214,391**	**-**	**-**	**-**	**-**
Shareholders' funds	**392,878,662**	**-**	**-**	**-**	**-**	**392,878,662**
Total liabilities and Shareholders' funds	**640,584,841**	**190,441,983**	**16,169,714**	**41,094,482**	**-**	**392,878,662**

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

	Total AED	*Up to 3 months AED*	*Over 3 months to 6 months AED*	*Over 6 months to 1 year AED*	*Over 1 year AED*	*Items with no maturity AED*
ASSETS						
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	-	-	-	-
Securities	433,542,589	2,473,869	2,619,434	4,415,156	101,959,363	322,074,767
Fixed assets	499,845	-	-	-	-	499,845
Other assets	4,299,194	4,299,194	-	-	-	-
Total assets	504,450,994	72,882,429	2,619,434	4,415,156	101,959,363	322,574,612
LIABILITIES AND SAHREHOLDERS' FUNDS						
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	-	-	-	-
Shareholders' funds	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

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.

27 FIDUCIARY ASSETS

	2005	*2004*
	AED	*AED*
Balance as at 31 December	**129,806,358**	**46,259,534**

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.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences therefore can arise between book values under the historical cost method and fair value estimates. The fair value of the Bank's on-balance sheet financial instruments is not materially different from the carrying values at 31 December 2005, 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 16.