# DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates Bank International PJSC ("the Group") for the year ended 31 December 2005. The performance of the Group during the year has been impressive reflecting the result of strategic initiatives taken over the last two years.

## Financial Performance

2005 was a year of opportunities for the banks in the UAE; strong growth in the stock market, a rapidly expanding construction industry and a good increase in retail sales contributing to a buoyant UAE economy. All businesses in the Group recorded significant growths in revenues and profits.

The Group has reported a net profit of AED 1,732 million for the year 2005, which represents a 78% increase over the 2004 results of AED 972 million. Net interest income of AED 1,172 million showed a 43% increase over 2004 levels reflecting improved interest margins and growth in our loan and investment book. Fees commission and other income was AED 1,060 million giving a 57% increase during 2005 reflecting the Board's' strategy of diversifying its non-interest revenue streams across the Group.

General and administration expenses of AED 774 million were 28% higher than 2004 levels, one of our key performance indicators - Expense to Income ratio further improved from 38% in 2004 to 35% for 2005. Despite the significant growth in our loan book, our Non Performing Loans remained largely unchanged at AED 574 million from AED 572 million for 2004 reflecting strong credit control.

Group Earning per Share increased to AED 2.41 from AED 1.35 for 2004.

Group return on average equity achieved for 2005 is 25.5% compared with 18.0% for 2004 and return on average total assets is 3.5% for 2005 compared to 2.7% for 2004.

## Balance Sheet

The growth in assets of the Group has been financed by a combination of increased customer deposits and borrowings from the international wholesale market.

Total assets of the Group were AED 59,392 million, a 54% increase from 2004; main drivers of growth have been from loans and receivables which increased by AED 11,155 million and investment securities which increased by AED 1,892 million.

…2/-

Islamic financing and investment products showed a significant growth to AED 2,441 million at 2005 year end from AED 421 million in 2004, Islamic customer deposits also showed good growth to AED 3,593 million from AED 1,233 million during the same period.

Customer deposits were AED 29,464 million, an increase of 51% from the 2004 level of AED 19,424 million reflecting increased product development, additional new branches and greater marketing drives against increasing market competition.

The Group continues to use the international wholesale markets as a source of stable medium and long term funding to match our growing asset book. Medium term borrowing increased to AED 6,409 million, an increase of 15% from 2004 borrowing levels.

**Equity Holders' Funds**

Total Equity holders' funds increased by 33% during 2005 to AED 7,749 million from AED 5,816 million at 31 December 2004 reflecting the policy of protecting and strengthening equity holders' value. Equity holders' funds include a reserve for "Cumulative changes in fair value" which reflects the unrealized revaluation gains on the Group's investment securities and certain treasury derivative products, this reserve increased to AED 647 million at 31 December 2005 from AED 154 million at 31 December 2004. Issued capital increased by AED 358 million to AED 1,793 million as a result of the bonus issue of shares which were approved at the Annual General Meeting of equity holders' on 20 March 2005.

The capital adequacy ratio at the year-end was 16.3% compared to the minimum of 10% prescribed by the Central Bank of the United Arab Emirates.

**Rating**

During 2005, Standard & Poor's rated the Group as A/Stable/A-1, acknowledging the Groups' solid capitalization, satisfactory profitability and strong market position in the United Arab Emirates. The Group was already rated A1/P1 by Moody's, and A/F1 by Fitch.

**Dividends and Proposed Appropriations**

The Directors have recommended a cash dividend of 25% to be paid out of the 2005 profit and a bonus issue of three ordinary shares for every ten shares held.

…3/-

The Directors also propose the following appropriations from retained earnings:

| | | AED million |
|---|---|---|
| Retained earnings as at 01 January 2005 | | 505 |
| Net profit for the year | | 1,732 |
| Retained earnings available for appropriation | | 2,237 |
| (a) | Transfers to Legal and statutory reserves | (173) |
| (b) | Transfer to Regular reserve | (35) |
| (c) | 2004 Cash dividend of 20% paid during 2005 | (287) |
| (d) | Transfer to General reserve | (1,000) |
| (e) | Directors' fees | (5) |
| Balance of retained earnings as at 31 December 2005 | | 737 |

**Directors**

During 2005, the Board of Directors comprised :

| | |
|---|---|
| H. E. Ahmed Humaid Al Tayer | Chairman |
| H. E. Juma Al Majid | Vice Chairman |
| H. E. Easa Saleh Al Gurg C.B.E. | Director |
| Mr. Fardan Bin Ali Alfardan | Director |
| H. E. Abdulla Ahmed Lootah | Director |
| Mr. Khalid Jassim Kalban | Director |
| Mr. Anis Abdullah Al Jallaf | MD & CEO |

**Retirement of Directors**

The Board of Directors would like to extend their thanks and appreciation to H.E. Juma Al Majid and Mr. Anis Al Jallaf for their valuable contributions to the Bank over the years. H.E. Juma Al Majid has retired from the Board during the year and Mr. Anis Al Jallaf has resigned as Managing Director and Chief Executive Officer of the Bank but will continue as a member of the Board of Directors.

…4/-

**Auditors:**

KPMG were appointed as auditors of Emirates Bank International PJSC and its subsidiaries at the Annual General Meeting held on 20 March 2005. KPMG are eligible for re-appointment and have expressed their willingness to continue in office.

On behalf of the Board

Ahmed Humaid Al Tayer
Chairman

Dubai, UAE

28 January 2006

**IMPORTANT INDICATORS**

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| Growth in net profit | 78% | 57% | 10% | 6% | 1% |
| Growth in total assets | 54% | 19% | 17% | 15% | 20% |
| Growth in loans and receivables | 40% | 15% | 23% | 30% | 29% |
| Return on average total assets | 3.5% | 2.7% | 2.0% | 2.2% | 2.4% |
| Return on average equity holders' funds | 25.5% | 18.0% | 13.0% | 13.0% | 13.4% |

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# REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF EMIRATES BANK INTERNATIONAL PJSC

We have audited the accompanying consolidated balance sheet of Emirates Bank International PJSC ("the Bank") and its subsidiaries (collectively referred to as "the Group") as of 31 December 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended.

## Respective responsibilities of the Management and the Auditors

These consolidated financial statements are the responsibility of the Group'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 Group 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 Group, and the contents of the Director's report which relates to the financial statements is in agreement with the Group'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 Group or its financial position.

KPMG

Name : Vijendra Nath Malhotra
Registration No. : 48 B
Date : 28 January 2006



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**EMIRATES BANK INTERNATIONAL PJSC**

**GROUP CONSOLIDATED BALANCE SHEET**
**AS AT 31 DECEMBER 2005**

| | Note | 2005 AED 000 | 2004 AED 000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits with Central Banks | 3 | 2,067,870 | 2,570,809 |
| Due from banks | 4 | 7,770,730 | 4,510,074 |
| Loans and receivables | 6 | 38,567,246 | 27,412,295 |
| Islamic financing and investment products | 7 | 2,441,351 | 421,496 |
| Investment securities | 8 | 3,238,937 | 1,347,174 |
| Investment in associate companies | 9 | 1,980,239 | 795,093 |
| Investment properties | 10 | 128,729 | 172,455 |
| Property and equipment | 11 | 242,885 | 179,231 |
| Positive fair value of derivatives | 31 | 890,393 | 250,423 |
| Customer acceptances | 34 | 856,448 | 408,029 |
| Other assets | 12 | 1,208,039 | 401,579 |
| **TOTAL ASSETS** | | 59,392,867 | 38,468,658 |
| **LIABILITIES** | | | |
| Customer deposits | 13 | 29,464,340 | 19,424,018 |
| Islamic customer deposits | 14 | 3,593,716 | 1,233,654 |
| Due to banks | 15 | 8,951,118 | 4,779,519 |
| Deposits under repurchase agreement | 16 | 355,087 | 355,087 |
| Medium term borrowing | 17 | 6,409,385 | 5,564,595 |
| Negative fair value of derivatives | 31 | 923,578 | 267,016 |
| Customer acceptances | 34 | 856,448 | 408,029 |
| Other liabilities | 18 | 1,088,976 | 616,892 |
| **TOTAL LIABILITIES** | | 51,642,648 | 32,648,810 |
| **EQUITY** | | | |
| Issued capital | 19 | 1,793,766 | 1,435,014 |
| Legal and statutory reserve | 20 | 792,205 | 619,205 |
| Other Reserves | 20 | 3,778,614 | 3,102,366 |
| Cumulative changes in fair value | 21 | 647,135 | 154,575 |
| Retained earnings | | 737,211 | 505,288 |
| **TOTAL EQUITY HOLDERS' FUNDS** | | 7,748,931 | 5,816,448 |
| Minority interests | 22 | 1,288 | 3,400 |
| **TOTAL LIABILITIES AND EQUITY HOLDERS' FUNDS** | | 59,392,867 | 38,468,658 |

The notes set out on pages 6 to 59 form part of these group consolidated financial statements.

_____ _____ _____

Chairman Director MD & CEO

**EMIRATES BANK INTERNATIONAL PJSC**

**GROUP CONSOLIDATED INCOME STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2005**

| | Note | 2005 AED 000 | 2004 AED 000 |
|---|---|---|---|
| Interest income | | 2,206,424 | 1,198,819 |
| Income from Islamic financing and investment products | 23 | 73,162 | 1,851 |
| Total interest income and income from Islamic financing and investment products | | 2,279,586 | 1,200,670 |
| Interest expense | | (1,063,361) | (380,444) |
| Distribution to depositors | 24 | (44,229) | (3,145) |
| Net interest income and income from Islamic products net of distribution to depositors | | 1,171,996 | 817,081 |
| Net fees, commission and other income | 25 | 1,059,919 | 671,572 |
| Property related income | | 8,986 | 110,496 |
| Total income | | 2,240,901 | 1,599,149 |
| General and administrative expenses | 26 | (774,327) | (606,003) |
| Net (impairment allowances)/recoveries on loans and receivables | 6 | (60,525) | 130 |
| Share of profit of associate companies | | 322,532 | 40,377 |
| Group profit for the year before minority interests | | 1,728,581 | 1,033,653 |
| Minority interests | | 3,545 | (61,526) |
| Group profit for the year attributable to the equity holders' | | 1,732,126 | 972,127 |
| | | 2005 (AED) | 2004 (AED) |
| **EARNINGS PER SHARE** | 30 | **2.41** | **1.35** |

The notes set out on pages 6 to 59 form part of these group consolidated financial statements.

**EMIRATES BANK INTERNATIONAL PJSC**

**GROUP CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005**

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Group profit for the year | 1,732,126 | 972,127 |
| **Adjustment for non cash items** | | |
| Impairment allowances on loans and receivables | 107,002 | 81,093 |
| Impairment of time loans due from banks | - | 12,800 |
| Depreciation on property and equipment | 55,301 | 44,048 |
| Share of profit of associate companies | (322,532) | (40,377) |
| Gain on revaluation of investment properties | - | (36,189) |
| **Operating profit before changes in operating assets and liabilities** | 1,571,897 | 1,033,502 |
| Increase in statutory deposits | (417,375) | (223,010) |
| (Increase)/decrease in amounts due from banks maturing after 3 months | (219,087) | 337,433 |
| Decrease in amounts due to banks maturing after 3 months | (24,251) | (258,442) |
| Net change in other liabilities/other assets | (322,984) | 25,819 |
| Increase in customer deposits | 12,400,384 | 81,744 |
| Increase in loans and receivables | (11,253,686) | (4,166,857) |
| Increase in Islamic financing and investment products | (2,028,122) | (421,496) |
| Decrease in property development receivables | - | 289,333 |
| **Net cash flows used in operating activities** | (293,224) | (3,301,974) |
| **INVESTING ACTIVITIES** | | |
| Increase in investment securities | (2,261,817) | (40,946) |
| Decrease in investment properties | 43,726 | 1,462,870 |
| Additions to property and equipment (net) | (118,955) | (47,037) |
| **Net cash flows (used in)/from investing activities** | (2,337,046) | 1,374,887 |
| **FINANCING ACTIVITIES** | | |
| Increase in medium term borrowing | 844,790 | 2,662,925 |
| Decrease in minority interests | (2,112) | (551,502) |
| Dividends paid | (287,003) | (229,602) |
| **Net cash flows from financing activities** | 555,675 | 1,881,821 |
| **Decrease in cash and cash equivalents [see note 41]** | (2,074,595) | (45,266) |

The notes set out on pages 6 to 59 form part of these group consolidated financial statements.

**EMIRATES BANK INTERNATIONAL PJSC**

**GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005**

| | Issued Capital | Legal and Statutory Reserve [See note 20] | Other Reserves [See note 20] | Cumulative changes in fair value | Retained Profits | Total |
|---|---|---|---|---|---|---|
| | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 | AED '000 |
| Balance at 1 January 2004 | 1,148,011 | 521,205 | 2,889,369 | 38,253 | 362,863 | 4,959,701 |
| Group profit for the year | - | - | - | - | 972,127 | 972,127 |
| Share of associate company fair value reserve | - | - | - | 3,930 | - | 3,930 |
| Dividends paid | - | - | - | - | (229,602) | (229,602) |
| Issue of bonus shares | 287,003 | - | (287,003) | - | - | - |
| Net movement in fair value on available for sale securities | - | - | - | 114,260 | - | 114,260 |
| Net movement in cash flow hedge reserve | - | - | - | (1,868) | - | (1,868) |
| Transfers to reserves | - | 98,000 | 500,000 | - | (598,000) | - |
| Directors' fees [see note 27] | - | - | - | - | (2,100) | (2,100) |
| Balance as at 31 December 2004 | 1,435,014 | 619,205 | 3,102,366 | 154,575 | 505,288 | 5,816,448 |
| Balance as at 1 January 2005 | 1,435,014 | 619,205 | 3,102,366 | 154,575 | 505,288 | 5,816,448 |
| Group profit for the year | - | - | - | - | 1,732,126 | 1,732,126 |
| Movement in associate company fair value reserve | - | - | - | (3,930) | - | (3,930) |
| Increase in fair value on available for sale securities | - | - | - | 546,773 | - | 546,773 |
| Realised gain on sale of available for sale securities | - | - | - | (14,826) | - | (14,826) |
| Net movement in cash flow hedge reserve | - | - | - | (35,457) | - | (35,457) |
| Dividends paid | - | - | - | - | (287,003) | (287,003) |
| Issue of bonus shares | 358,752 | - | (358,752) | - | - | - |
| Transfers to reserves | - | 173,000 | 1,035,000 | - | (1,208,000) | - |
| Directors' fees [see note 27] | - | - | - | - | (5,200) | (5,200) |
| Balance as at 31 December 2005 | 1,793,766 | 792,205 | 3,778,614 | 647,135 | 737,211 | 7,748,931 |

In accordance with the Ministry of Economy and Planning interpretation of Article 118 of Commercial Companies Law No.8 of 1984, Directors' fees have been treated as an appropriation from equity.

The notes set out on pages 6 to 59 form part of these group consolidated financial statements.

EMIRATES BANK INTERNATIONAL PJSC

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

## 1 LEGAL STATUS AND ACTIVITIES

Emirates Bank International PJSC, ("the Bank") was incorporated in Dubai as a commercial bank with limited liability by a decree of the Ruler of Dubai on 27 March 1977. The Bank was registered as a Public Joint Stock Company in June 1995.

The Bank is listed on the Dubai Financial Market. The Bank's principal business activity is commercial banking. For details of activities of subsidiaries refer to note 32.

The Group consolidated financial statements of the Bank for the year ended 31 December 2005 comprise the Bank and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Bank also has a branch in London and representative offices in Mumbai and Teheran. The following changes had taken place during 2004:

- In August 2004, the Bank commenced operations in the Kingdom of Saudi Arabia by opening a branch in Riyadh.

- In October 2004, Middle East Bank PJSC converted from a conventional bank to an Islamic Bank called Emirates Islamic Bank PJSC. The financial results of Middle East Bank PJSC up to the date of conversion were included in the Group consolidated financial statements for 2004. From the date of conversion, the financial results of Emirates Islamic Bank PJSC are included in the Group consolidated financial statements.

- During 2004, the Bank gradually reduced its shareholding in Union Properties PJSC ("the company") from 61.5% at 31 December 2003 to 48.9% at 31 December 2004. The company thus moved from being a subsidiary to an associate company of the Bank and the accounting treatment changed accordingly. Effective December 2004, the assets and liabilities of the company were no longer consolidated on a line-by-line basis; the results of the company are now accounted on an equity basis.

The registered address of the Bank is Post Box No.2923, Dubai, United Arab Emirates.

These Group consolidated financial statements have been approved for issue by the Board of Directors on 28 January 2006.

## 2 ACCOUNTING POLICIES

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations adopted by the Standing Interpretations Committee of the International Accounting Standards Board ("IASB").

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

The Group consolidated financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and financial liabilities held at fair value through profit or loss, and available-for-sale investment securities. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 2 (b).

(a) Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are consolidated on a line-by-line basis and full provision is made for the minority interest's share in the results for the year and for their share of the net assets of the subsidiaries. The effects of intra group transactions are eliminated in preparing the Group consolidated financial statements.

## 2 ACCOUNTING POLICIES (continued)

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are stated on an equity basis at cost plus an appropriate share of the associate's profits and losses post acquisition. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

(b) Use of estimates

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans and receivables as well as allowances for impairment provision of unquoted investment securities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Significant items where the use of estimates and judgements are required are outlined below:

(i) Allowances for impairment of loans and receivables

The Group reviews its loan portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a loan or homogenous group of loans. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

## 2 ACCOUNTING POLICIES (continued)

(ii) Fair value of derivatives and unquoted securities

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (such as models) are used to determine fair values these are tested before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

(iii) Impairment of available for-sale investment securities

The Group determines that available-for-sale investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgement, the Group evaluates factors such as credit rating of the institution issuing the instrument and financial performance of the issuer.

(iv) Held-to-maturity investment securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investment securities to maturity. In the event the Group fails to keep these investments to maturity other than for the specific circumstances, such as, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale.

(c) Revenue recognition

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

## 2 ACCOUNTING POLICIES (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss applied to the carrying amount of the asset as reduced by any allowances for impairment.

Commission and fee income is accounted for on an accrual basis except for letters of credit where commission is recognised at the date of issue or renewal.

Dividend income is recognised with the Group's right to receive is established.

Recoveries in respect of loans and receivables that have been identified as fully impaired are accounted for on a cash receipts basis.

(d) Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease, and contract revenues which are recognised using the percentage-of-completion method based on actual costs incurred to total estimated costs. Contract costs include direct material, direct labour and contract related overheads.

(e) Financial instruments

(i) Classification

- Financial assets at fair value through profit or loss
  This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.

- Loans and receivables
  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

## 2 ACCOUNTING POLICIES (continued)

- Held-to-maturity
  Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity. These include certain debt instruments.

- Available-for-sale
  Available-for-sale assets are financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables, or held to maturity. Available-for-sale assets include certain debt and equity investments. These assets may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices.

(ii) Recognition

Financial assets and liabilities are recognised on the balance sheet when the Group becomes a party to contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets or liabilities designated as fair value through profit or loss or available-for-sale assets are recognised.

Loans and receivables are recognised on the day they are transferred to or acquired by the Group.

(iii) Measurement

A financial asset or a financial liability is recognised initially at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be measured reliably is stated at cost, including transaction costs, less impairment allowances.

All other financial assets and non-trading financial liabilities are measured at amortised cost less impairment allowances.

## 2 ACCOUNTING POLICIES (continued)

(iv) Embedded Derivatives

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

(v) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(vi) Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

## 2 ACCOUNTING POLICIES (continued)

(vii) Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Loans and receivables are presented net of allowances for impairment. The recoverable amount of individually significant loans and receivables is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted. Impairment allowances are made against the carrying amount of loans and receivables that are identified as being impaired; based on regular reviews of outstanding balances, to reduce these loans and receivables to their recoverable amounts. Collective allowances are maintained to reduce the carrying amount of groups of homogenous loans and receivables to their estimated recoverable amounts at the balance sheet date. Increases in the allowances account is recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

In the case of an investment security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale investment security, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment security previously recognised in income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement.

If in a subsequent period, the fair value of an available-for-sale debt instrument increases which can be linked objectively to an event occurring after the write down, the write-down or impairment allowance is reversed through the income statement.

## 2 ACCOUNTING POLICIES (continued)

(f) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at rates of exchange ruling at the balance sheet date and the resulting gains and losses are taken to the Group consolidated income statement. Forward exchange contracts are valued at market rates applicable to their respective maturities.

Exchange differences arising from the translation of the net investment in overseas operations are taken directly to other reserves (exchange retranslation differences).

(g) Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Freehold buildings (other than those held as investment and development properties) are depreciated on a straight-line basis over a maximum period of 20 years.

Leasehold premises are amortised over their respective lease periods. Other assets are depreciated on a straight-line basis over their estimated useful lives, principally between 3 and 5 years.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Group consolidated income statement.

## 2 ACCOUNTING POLICIES (continued)

(h) Income taxes, and deferred taxation

Income tax payable on taxable profits, based on the applicable tax laws in each overseas jurisdiction where the Group operates, is recognised as an expense in the period in which such taxable profits arise. This also includes any adjustment that may be required to tax payable in respect of previous years.

Deferred tax is accounted for using the asset and liability method. Deferred tax assets and liabilities are recognised for the full tax consequences of all temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Recognition of deferred tax assets are, however, restricted to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using tax rates that are expected to apply to the period in which the asset is expected to realise or the liability is expected to settle.

Deferred tax assets are reviewed at the end of each year to reduce the carrying amount by the extent to which it is no longer probable that sufficient taxable profits will be available to utilise the differences.

(i) Investment properties

Properties acquired by the Islamic Bank for development or to be leased out, are classified as investment properties. Such investment properties are recognised at cost less accumulated depreciation and impairment allowance, if any.

(j) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees are made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

## 2 ACCOUNTING POLICIES (continued)

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year.

(k) Hedging instruments

Hedging instruments includes futures, forwards and swaps in the interest rate and foreign exchange markets. The Group utilises these instruments to satisfy the requirements of its customers, for proprietary trading purposes and to hedge its own exposure to interest rate and currency risk.

Where there is a hedging relationship as defined by IAS 39 between a derivative instrument and a related item being hedged, the hedging instrument is measured at fair value, with any resultant gains and losses being accounted as set out below.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of financial instruments [refer note 2 (e) (v)].

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either :

- hedges of the exposure to changes in fair value of recognised assets or liabilities or firm commitments (fair value hedge); or,

- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

## 2 ACCOUNTING POLICIES (continued)

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## 2 ACCOUNTING POLICIES (continued)

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash balances with central banks and balances with banks and financial institutions maturing within three months, less balances due to banks and financial institutions maturing within three months.

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Group consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(n) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the Group consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(o) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the Group consolidated income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of the liability and the consideration paid is included in net trading income.

## 2 ACCOUNTING POLICIES (continued)

(p) Leases

The total payments made under operating leases such as leases for premises, are charged to the Group consolidated income statement on a straight line basis over the period of the lease.

(q) Islamic Financing and Investment products

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the bank sells to a customer a commodity, which the bank has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istissna'a

An agreement between the bank and a customer whereby the bank would sell to the customer a developed property according to agreed upon specifications. The bank would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement whereby the bank (lessor) purchases or leases an asset according to the customer's request (lessee), based on his promise to lease the asset for a specific period and against certain rent instalments. Ijara could end by transferring the ownership of the asset to the lessee.

Musharaka

An agreement between the bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.

## 2 ACCOUNTING POLICIES (continued)

Mudaraba

An agreement between the bank and a customer whereby the bank would provide a certain amount of funds, which the customer would then invest in a specific enterprise or activity against a specific share in the profit. The customer would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala

An agreement whereby the bank provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Revenue recognition

Revenue is recognised on the above Islamic products as follows :

Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time proportion basis over the period of the contract based on the principal amounts outstanding.

Istissna'a

Istissna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istissna'a cost) is accounted for on a time proportion basis.

Ijara

Ijara income is recognised on a time proportion basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance on a time proportion basis that reflects the effective yield on the asset.

## 2 ACCOUNTING POLICIES (continued)

Mudaraba

Income on mudaraba financing is recognised on distribution by the mudarib, whereas the losses are charged to income on their declaration by the mudarib.

Wakala

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

## 3 CASH AND DEPOSITS WITH CENTRAL BANKS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Cash | 382,531 | 502,845 |
| Interest free statutory and special deposits with Central Banks | 1,635,339 | 1,217,964 |
| Interest bearing certificates of deposit with Central Bank | 50,000 | 850,000 |
| | 2,067,870 | 2,570,809 |

## 4 DUE FROM BANKS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Time loans | 7,440,865 | 3,146,883 |
| Overnight, call and short notice | 382,665 | 1,415,991 |
| Gross due from banks | 7,823,530 | 4,562,874 |
| Allowances for impairment | (52,800) | (52,800) |
| | 7,770,730 | 4,510,074 |

The average yield on these placements was 3.2% (2004 - 1.7%).

## 5 DISPOSAL OF INVESTMENT IN A SUBSIDIARY

During 2004 the Bank progressively sold a portion of its equity shares in Union Properties PJSC (UP) and the shareholding reduced from 61.5% at 31 December 2003 to 48.9% in December 2004. Accordingly the results of the operations of UP up to the date when UP was a subsidiary of the Bank have been included in the consolidated income statement.

The difference between the proceeds from the progressive sale of UP shares and the Bank's interests in its net assets during the year ended 31 December 2004 amounted to AED 113.1 million and has been recognised in the Group's consolidated income statement as profit on sale of investments in a subsidiary.

The results of operations of UP included in the Group consolidated income statement during 2004 were as follows:

| | 2004<br>AED 000 |
|---|---|
| Interest income | 1,987 |
| Interest expense | (11,090) |
| Net interest income | (9,103) |
| Fees, commission and other income | 41,248 |
| Property related income | 110,496 |
| Total income | 142,641 |
| General and administrative expenses | (36,559) |
| Impairment allowances on trade receivables | (3,030) |
| Share of profit of associate companies | 36,870 |
| UP net profit for the period | 139,922 |
| Minority interests | (166) |
| Group net profit for the period | 139,756 |

## 6 LOANS AND RECEIVABLES

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Overdrafts | 11,242,488 | 7,588,964 |
| Time loans | 24,043,753 | 17,669,076 |
| Loans against trust receipts | 1,230,153 | 936,359 |
| Bills discounted | 544,678 | 603,841 |
| Others | 212,676 | 533,610 |
| Gross loans and receivables | 37,273,748 | 27,331,850 |
| Allowances for impairment | (673,750) | (629,498) |
| Net loans and receivables | 36,599,998 | 26,702,352 |
| Other debt instruments | 1,967,248 | 709,943 |
| Total loans and receivables | 38,567,246 | 27,412,295 |
| Total of classified loans and receivables on which interest is not taken into income amounted to | 574,814 | 572,013 |

## 6 LOANS AND RECEIVABLES (continued)

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Analysis by economic activity | | |
| Agriculture and allied activities | 50,094 | 51,670 |
| Mining and quarrying | - | 233,446 |
| Manufacturing | 3,116,359 | 2,798,000 |
| Construction | 2,509,620 | 2,223,925 |
| Trade | 2,899,508 | 2,548,591 |
| Transport and communication | 2,285,520 | 2,027,425 |
| Services | 8,923,713 | 5,635,383 |
| Sovereign | 4,614,904 | 3,353,726 |
| Personal | 12,374,747 | 7,935,352 |
| Others | 499,283 | 524,332 |
| Loans and receivables before allowances for impairment | 37,273,748 | 27,331,850 |
| Allowances for impairment | (673,750) | (629,498) |
| Net loans and receivables | 36,599,998 | 26,702,352 |
| Other debt securities | 1,967,248 | 709,943 |
| Total loans and receivables | 38,567,246 | 27,412,295 |

The average interest yield on the loan portfolio was 5.4% (2004 – 3.8%).

## 6 LOANS AND RECEIVABLES (continued)

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Movement in allowances for impairment | | |
| Balance as at 1 January | 629,498 | 705,851 |
| Allowances for impairment made during the year | 98,735 | 81,093 |
| Recoveries made during the year | (39,146) | (77,706) |
| Amounts written off during the year | (15,337) | (18,085) |
| Transfer to Islamic financing and investment products | - | (61,655) |
| Balance as at 31 December | 673,750 | 629,498 |

Special assets

In addition to the gross loans and receivables and allowances for impairment detailed above, the Bank is managing delinquent debts that arose prior to 1986 on the merging of Union Bank of the Middle East Limited, Emirates National Bank Limited and Dubai Bank Limited in a workout situation. Emirates Islamic Bank PJSC (formerly Middle East Bank PJSC) is also managing delinquent debts in a workout situation, which were identified at the time of its acquisition by the Bank. The loan balances on these accounts amount to AED 1,853 million (2004 - AED 1,976 million) against which allowances for impairment of AED 1,853 million (2004 - AED 1,976 million) are applied.

Net recoveries of AED 7 million (2004 - AED 16 million) have been credited to the Group consolidated income statement.

Analysis of net recoveries on loans and receivables

The charge to the Group consolidated income statement for net impairment losses on loans and receivables is made up as follows:

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Net impairment of loans and receivables | (59,589) | (3,387) |
| Net impairment of Islamic financing and investing products | (8,267) | - |
| Net special asset recoveries | 6,934 | 16,317 |
| Recoveries of credit card receivables | 397 | - |
| Net impairment of due from banks | - | (12,800) |
| Net (impairment)/recoveries on loans and receivables | (60,525) | 130 |

## 7 ISLAMIC FINANCING AND INVESTMENT PRODUCTS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Murabaha | 1,696,681 | 384,252 |
| Ijara | 603,582 | 129,456 |
| Sukuk and funds | 308,084 | - |
| Mudaraba | 85,436 | - |
| Istissna'a | 12,949 | - |
| Total Islamic financing and investment products | 2,706,732 | 513,708 |
| Less deferred income | (195,459) | (30,557) |
| Less allowances for impairment | (69,922) | (61,655) |
| Net Islamic financing and investment products | 2,441,351 | 421,496 |

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Analysis by economic activity | | |
| Agriculture and allied activities | 26,660 | 163,316 |
| Manufacturing | 130,244 | 49,547 |
| Construction | 130,062 | 49,753 |
| Trade | 419,231 | 51,293 |
| Transport and communication | 3,905 | 18,343 |
| Services and personal | 1,331,073 | 156,601 |
| Others | 665,557 | 24,855 |
| Total Islamic financing and investment products | 2,706,732 | 513,708 |
| Less deferred income | (195,459) | (30,557) |
| Less allowances for impairment of loans | (69,922) | (61,655) |
| Net Islamic financing and investment products | 2,441,351 | 421,496 |

## 7 ISLAMIC FINANCING AND INVESTMENT PRODUCTS (continued)

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Movement in allowances for impairment | | |
| Balance as at 1 January | 61,655 | - |
| Impairment allowances made during the year | 8,267 | - |
| Transfer from loans and receivables during the year | - | 61,655 |
| Balance as at 31 December | 69,922 | 61,655 |

## 8 INVESTMENT SECURITIES

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| HELD-TO-MATURITY: | | |
| Government securities | 206,768 | 145,089 |
| Non-Government securities | 235,238 | 267,541 |
| | 442,006 | 412,630 |
| FAIR VALUE THROUGH PROFIT OR LOSS | | |
| Held for trading | 1,194,723 | 10,416 |
| Designated by Group as fair value through profit or loss | 59,569 | 57,115 |
| | 1,254,292 | 67,531 |
| AVAILABLE-FOR-SALE: | | |
| Government securities | 127,192 | 216,756 |
| Non Government securities: | | |
| - Quoted | 1,285,584 | 516,288 |
| - Unquoted | 129,863 | 133,969 |
| | 1,542,639 | 867,013 |
| Total investment securities | 3,238,937 | 1,347,174 |

## 8 INVESTMENT SECURITIES (continued)

Included in held-to-maturity and available-for-sale are investments of USD 120 million that have been pledged under the repurchase agreement [see note 16].

Income from investment securities and other debt securities taken to the Group consolidated income statement is made up as follows:

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Interest income | | |
| Interest from investment securities and other debt securities | 128,015 | 89,243 |
| Other income | | |
| Profit on sale of investment securities | 123,998 | 12,461 |
| Revaluation gain on investment securities held as fair value through profit or loss | 15,613 | - |
| Dividend income | 35,680 | 4,432 |
| Total other investment income | 175,291 | 16,893 |

## 9 INVESTMENT IN ASSOCIATE COMPANIES

| | 2005 AED 000 |
|---|---|
| Balance as at 1 January | 795,093 |
| Share of profits | 322,532 |
| Rights issue | 871,104 |
| Sale of investments | (7,734) |
| Other adjustments including dividends | (756) |
| Balance as at 31 December | 1,980,239 |

## 9 INVESTMENT IN ASSOCIATE COMPANIES (continued)

Other details of the associates are as follows :

| | Equity holding | | Assets | | Liabilities | | Revenues | | Net Profit | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 |
| Union Properties | 48.7% | 48.9% | 6,511,331 | 2,889,307 | 2,615,961 | 1,352,666 | 1,242,554 | 569,903 | 584,538 | 148,411 |
| National General Insurance Company | 37.1% | 37.4% | 308,235 | 175,610 | 86,837 | 58,177 | 113,005 | 42,809 | 108,153 | 40,040 |

## 10 INVESTMENT PROPERTIES

The movement on investment properties during the year is as follows:

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Balance as at 1 January | 172,455 | 1,307,049 |
| Additions | 310,969 | 173,640 |
| Fair value revaluation gain | - | 36,189 |
| Transfer from development properties | - | 113,181 |
| Sale of investment properties | (354,695) | - |
| Transfer on disposal of a subsidiary [see note 5] | - | (1,457,604) |
| Balance as at 31 December | 128,729 | 172,455 |

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Investment properties at 31 December consist of: | | |
| Freehold land and buildings | 128,729 | 172,455 |

## 11 PROPERTY AND EQUIPMENT

| | Freehold land and property AED 000 | Leasehold premises AED 000 | Others AED 000 | Fixed assets not commissioned AED 000 | Total AED 000 |
|---|---|---|---|---|---|
| COST | | | | | |
| As at 1 January 2005 | 118,484 | 30,946 | 228,026 | 39,625 | 417,081 |
| Additions | 25,656 | 11,872 | 34,218 | 47,755 | 119,501 |
| Transfers | 1,944 | 20,233 | 22,952 | (45,129) | - |
| Disposals | (3,434) | (4,894) | (17,965) | - | (26,293) |
| As at 31 December 2005 | 142,650 | 58,157 | 267,231 | 42,251 | 510,289 |
| ACCUMULATED DEPRECIATION | | | | | |
| As at 1 January 2005 | 65,349 | 14,585 | 157,916 | - | 237,850 |
| Charge for year | 3,071 | 9,769 | 42,461 | - | 55,301 |
| Disposals | (3,434) | (4,634) | (17,679) | - | (25,747) |
| As at 31 December 2005 | 64,986 | 19,720 | 182,698 | - | 267,404 |
| Net Book Value as at 31 December 2005 | 77,664 | 38,437 | 84,533 | 42,251 | 242,885 |
| Net Book Value as at 31 December 2004 | 53,135 | 16,361 | 70,110 | 39,625 | 179,231 |

Fixed assets not commissioned represent expenditure incurred on assets and projects which are under development, and are not yet ready for use.

## 12 OTHER ASSETS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Accrued interest receivable | 393,410 | 191,044 |
| Properties and shares acquired in settlement of loans and receivables | 50,103 | 63,733 |
| Cheques awaiting clearance | 691 | 33,152 |
| Others | 763,835 | 113,650 |
| | 1,208,039 | 401,579 |

## 13 CUSTOMER DEPOSITS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Demand, call and short notice | 12,142,932 | 6,463,497 |
| Time | 14,732,483 | 11,307,945 |
| Savings | 1,642,066 | 1,510,185 |
| Others | 946,859 | 142,391 |
| | 29,464,340 | 19,424,018 |

Deposits from Government and public sector entities account for 20.7% (2004 - 42.2%) of total deposits.

The interest rates paid on the above deposits averaged 1.9% (2004 - 0.9%).

## 14 ISLAMIC CUSTOMER DEPOSITS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Demand, call and short notice | 1,422,591 | 495,258 |
| Time | 1,720,591 | 506,424 |
| Savings | 402,168 | 209,012 |
| Others | 48,366 | 22,960 |
| | 3,593,716 | 1,233,654 |

## 15 DUE TO BANKS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Demand and call deposits | 58,854 | 121,332 |
| Balances with correspondent banks | 424,804 | 196,951 |
| Time and other deposits | 8,467,460 | 4,461,236 |
| | 8,951,118 | 4,779,519 |

The interest rates paid on the above averaged 3.1% (2004 - 1.8%).

## 16 DEPOSITS UNDER REPURCHASE AGREEMENT

Deposits under repurchase agreement represent five year borrowings from a bank and are secured by a portfolio of investment securities of USD 120 million [refer note 8]. These are included under investments available-for-sale and held-to-maturity in the consolidated balance sheet. This will be repaid in 2008.

## 17 MEDIUM TERM BORROWING

| | 2005<br>AED 000 | 2004<br>AED 000 |
|---|---|---|
| Eurobond loan issue | 5,564,595 | 2,681,290 |
| Syndicated borrowings from banks | 844,790 | 2,883,305 |
| | 6,409,385 | 5,564,595 |

The Bank has outstanding medium term borrowing totalling USD 1,745 million (2004 – USD 1,515 million) which will be repaid as follows:

| | 2005<br>USD million | 2004<br>USD million |
|---|---|---|
| 2005 | - | 255 |
| 2006 | 230 | 530 |
| 2007 | 230 | 230 |
| 2008 | - | - |
| 2009 | 550 | 500 |
| 2010 | 735 | - |
| | 1,745 | 1,515 |

The interest rate paid on the above averaged 3.8% (2004 - 1.9%).

## 18 OTHER LIABILITIES

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Accrued interest payable | 279,100 | 89,079 |
| Managers' cheques | 285,799 | 69,427 |
| Trade payables | 23,895 | - |
| Staff related liabilities | 193,646 | 128,337 |
| Provision for taxation [see note 28] | 14,863 | 14,863 |
| Others | 291,673 | 315,186 |
| | 1,088,976 | 616,892 |

## 19 ISSUED CAPITAL

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Issued and fully paid : | | |
| 717,506,408 (2004 – 574,005,126) ordinary shares of AED 2.50 each | 1,793,766 | 1,435,014 |

The Government of Dubai holds 77% of the ordinary shares of the Bank.

Movement of ordinary shares in issue during the year is made up as follows:

| | 2005 | 2004 |
|---|---|---|
| Number of shares in issue at 1 January | 574,005,126 | 459,204,101 |
| Bonus issue | 143,501,282 | 114,801,025 |
| Number of shares in issue at 31 December | 717,506,408 | 574,005,126 |

## 19 ISSUED CAPITAL (continued)

At the Annual General Meeting held on 20 March 2005, the equity holders approved a bonus issue of one ordinary share for every four ordinary shares held and approved a cash dividend of AED 0.50 per share for the year (previous year – AED 0.50) amounting to AED 287 million (previous year – AED 229.6 million).

At the forthcoming Annual General Meeting which will be held in March 2006, the Bank is proposing a cash dividend of AED 0.625 per share for the year (2004 - AED 0.50) amounting to AED 448.4 million (2004 - AED 287 million) and a bonus issue of three ordinary shares for every ten ordinary shares held for the approval of the equity holders.

## 20 RESERVES

In accordance with the Bank's Articles of Association, and in compliance with Article 82 of Union Law No.10 of 1980, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. A transfer of AED 173 million has been made to the legal reserve in compliance with the provisions of the Bank's Articles of Association. 10% of the profit is also transferred to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital.

| | Other Reserves | | |
|---|---|---|---|
| | Regular Reserve AED 000 | General Reserve AED 000 | Total AED 000 |
| At 1 January 2005 | 144,500 | 2,957,866 | 3,102,366 |
| Bonus shares issued | - | (358,752) | (358,752) |
| Transfer from Group consolidated income statement | 35,000 | 1,000,000 | 1,035,000 |
| At 31 December 2005 | 179,500 | 3,599,114 | 3,778,614 |

## 21 CUMULATIVE CHANGES IN FAIR VALUE

| | Available for sale investment securities AED 000 | Cash flow hedges AED 000 | Associate company fair value reserve AED 000 | Total AED 000 |
|---|---|---|---|---|
| At 1 January 2004 | 38,253 | - | - | 38,253 |
| Net movements during the year | 114,260 | (1,868) | 3,930 | 116,322 |
| At 31 December 2004 | 152,513 | (1,868) | 3,930 | 154,575 |
| At 1 January 2005 | 152,513 | (1,868) | 3,930 | 154,575 |
| Net movements during the year | 531,947 | (35,457) | (3,930) | 492,560 |
| At 31 December 2005 | 684,460 | (37,325) | - | 647,135 |

## 22 MINORITY INTERESTS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Balance at 1 January | 3,400 | 554,902 |
| Share of subsidiary profits for the year | (3,545) | 61,526 |
| Increase in share capital of subsidiary | 1,433 | - |
| Carrying value of UP shares sold | - | 129,356 |
| Transfer on disposal of subsidiary | - | (742,384) |
| Balance at 31 December | 1,288 | 3,400 |

## 23 INCOME FROM ISLAMIC FINANCING AND INVESTMENT PRODUCTS

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Murabaha | 42,320 | 1,759 |
| Ijara | 22,546 | 92 |
| Sukuk and funds | 8,296 | - |
| Income from Islamic financing and investment products | 73,162 | 1,851 |

## 24 DISTRIBUTION TO DEPOSITORS

This represents the share of income between depositors and equity holders' funds due to depositors of the Bank's Islamic banking subsidiary, Emirates Islamic Bank PJSC. The allocation and distribution to depositors was approved by the Islamic Bank's Fatwa and Sharia Supervisory Board.

## 25 NET FEES, COMMISSION AND OTHER INCOME

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Net foreign exchange income | 123,184 | 86,792 |
| Commission income | 466,622 | 291,361 |
| Commission expense | (92,045) | (65,345) |
| Gain on investment property valuation | 12,675 | 36,189 |
| Profit on sale of shares of subsidiary | - | 113,121 |
| Profit on sale of land | 488 | 76,946 |
| Brokerage income | 154,787 | 30,484 |
| Fund management and other fees | 182,070 | 25,381 |
| Other income | 212,138 | 76,643 |
| | 1,059,919 | 671,572 |

## 26 GENERAL AND ADMINISTRATIVE EXPENSES

Charges to general and administrative expenses in respect of depreciation amounted to AED 55.3 million (2004 - AED 44 million).

The charge also includes staff related expenses of AED 460.6 million (2004 - AED 328.7 million). This excludes staff costs that are directly associated with property related activities.

During the year an amount of AED 7.6 million (2004 - AED 5.9 million) has been charged to the Group consolidated income statement in respect of the Group's contribution to a UAE Pension and Social Security Scheme set up by the UAE Government authorities to provide retirement benefits for UAE nationals.

The number of employees of the Group at 31 December 2005 was 3,007 (2004 – 2,172).

## 27 DIRECTORS' FEES

This comprises fees payable to the Directors of the Bank of AED 5.2 million (2004 - AED 2.1 million). The 2005 figure includes fees payable to the Directors of subsidiaries of AED 3.1 million (2004 – AED 0.1 million).

## 28 TAXATION

At 31 December 2005 provisions for tax payable on overseas branch operations amount to AED 14.9 million (2004 - AED 14.9 million) [see note 18].

## 29 GROUP PROFIT FOR THE YEAR

Group profit for the year includes a profit amounting to AED 1,053.6 million (2004 - AED 789.6 million) for the Bank (parent company).

## 30 EARNINGS PER SHARE

The basic earnings per share is based on earnings of AED 1,732.1 million being the profit attributable to the equity holders for the year ended 31 December 2005 (2004 - AED 972.1 million) and on 717,506,408 shares in issue during the year. The 2004 earnings per share have been adjusted to reflect the bonus issue of shares made in 2005.

## 31 DERIVATIVES

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Notional amounts at 31 December : | | |
| Forward foreign exchange contracts | 11,237,699 | 6,531,005 |
| Forward exchange options | 2,308,115 | 441,015 |
| Interest rate swaps – held for trading | 7,770,160 | 2,783,525 |
| Interest rate swaps – held as cash flow hedges | 2,354,393 | 440,760 |
| Interest rate swaps – held for fair value hedges | 130,156 | 142,420 |
| Total | 23,800,523 | 10,338,725 |

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

31 December 2005 Notional amounts by term to maturity

| | Positive Fair Value AED 000 | Negative Fair Value AED 000 | Notional Amount Total AED 000 | 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 |
|---|---|---|---|---|---|---|---|---|
| **Derivatives held for trading :** | | | | | | | | |
| Forward foreign exchange contracts | 203,825 | (192,505) | 11,237,699 | 5,163,269 | 5,151,799 | 637,886 | 136,610 | 148,135 |
| Foreign exchange options | 34,533 | (34,533) | 2,308,115 | 804,072 | 1,167,858 | 336,185 | - | - |
| Interest rate swaps | 651,944 | (651,973) | 7,770,160 | 4,742,547 | 3,027,613 | - | - | - |
| | 890,302 | (879,011) | 21,315,974 | 10,709,888 | 9,347,270 | 974,071 | 136,610 | 148,135 |
| **Derivatives held as cash flow hedges :** | | | | | | | | |
| Interest rate swaps | 91 | (37,416) | 2,354,393 | - | - | 1,799,770 | 554,623 | - |
| **Derivatives held for fair value hedges :** | | | | | | | | |
| Interest rate swaps | - | (7,151) | 130,156 | 39,433 | - | 25,711 | 65,012 | - |
| | 890,393 | (923,578) | 23,800,523 | 10,749,321 | 9,347,270 | 2,799,552 | 756,245 | 148,135 |

## 31 DERIVATIVES (continued)

31 December 2004 Notional amounts by term to maturity

| | Positive Fair Value | Negative Fair Value | Notional Amount Total | Within 3 Months | Over 3 Months to 1 Year | Over 1 Year to 3 Years | Over 3 Years to 5 Years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 | AED 000 |
| **Derivatives held for trading :** | | | | | | | | |
| Forward foreign exchange contracts | 141,657 | (141,789) | 6,531,005 | 4,903,763 | 1,205,607 | 69,497 | 126,536 | 225,602 |
| Foreign exchange options | 2,624 | (2,624) | 441,015 | 350,158 | 90,857 | - | - | - |
| Interest rate swaps | 106,142 | (106,677) | 2,783,525 | 60,000 | 303,023 | 76,256 | 669,788 | 1,674,458 |
| | 250,423 | (251,090) | 9,755,545 | 5,313,921 | 1,599,487 | 145,753 | 796,324 | 1,900,060 |
| **Derivatives held as cash flow hedges :** | | | | | | | | |
| Interest rate swaps | - | (1,868) | 440,760 | - | 91,825 | 183,650 | 165,285 | - |
| **Derivatives held for fair value hedges :** | | | | | | | | |
| Interest rate swaps | - | (14,058) | 142,420 | - | 28,649 | 48,759 | 65,012 | - |
| | 250,423 | (267,016) | 10,338,725 | 5,313,921 | 1,719,961 | 378,162 | 1,026,621 | 1,900,060 |

Derivative product types

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

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

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

## 31 DERIVATIVES (continued)

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 60% of the Bank's derivative contracts are entered into with other financial institutions. The majority of the fair value of favourable contracts (and therefore credit risk) is exposure to financial institutions. All credit exposure is managed under approved facilities.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, and balance sheet hedging. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading is conducted under Board approved limits.

Derivatives held or issued for hedging purposes

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

The Bank uses interest rate swaps and forward rate agreements to hedge against the cash flow risks arising on certain floating rate customer deposits. The Bank also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and receivables. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

The Bank also uses interest rate swaps to hedge against changes in fair value of investment securities due to interest rate movements. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

## 32 BUSINESS SEGMENT REPORTING

The Group is organised into the following main business segments:

(a) Government, Corporate and Commercial banking which incorporates structured financing, current and savings accounts, customer deposits, overdrafts, trade finance and term loans for Government, corporate and commercial customers.

(b) Retail banking which incorporates current and savings accounts, customer deposits, overdrafts, personal and installment credit loans, foreign currency and trade finance related facilities.

(c) Investment and funds management which involves managing the Group's portfolio of investments, funds management, and inter bank treasury operations.

(d) Real estate activities which involve activities relating to property development, property management and maintenance, rental income and property related services undertaken on behalf of other parties.

(e) Islamic banking activities represent the income and fees earned and expenses paid by the Islamic banking subsidiary.

(f) Other operations of the Group comprise property development and management, insurance services, credit card facilities and other banking related services, none of which constitutes a separately reportable segment.

The distinctions between corporate and commercial banking and retail banking segments are primarily based on monetary threshold limits determined by management.

These figures represent streams of income and expenses directly attributable to the business segment assets and liabilities. They do not reflect inter sector borrowings or placements and accordingly does not reflect the profitability of the business segment.

## 32 BUSINESS SEGMENT REPORTING (continued)

| | Government, Corporate & Commercial AED 000 | Retail AED 000 | Investment & Funds Management AED 000 | Real Estate Activities AED 000 | Islamic Banking Activities AED 000 | Other AED 000 | Total AED 000 |
|---|---|---|---|---|---|---|---|
| 31 December 2005 | | | | | | | |
| Interest Income | 1,553,019 | 350,125 | 303,280 | - | - | - | 2,206,424 |
| Income from Islamic financing | - | - | - | - | 73,162 | - | 73,162 |
| Interest Expense | (757,371) | (63,664) | (242,326) | - | - | - | (1,063,361) |
| Distribution to depositors | - | - | - | - | (44,229) | - | (44,229) |
| Net Interest Income | 795,648 | 286,461 | 60,954 | - | 28,933 | - | 1,171,996 |
| Net fees, commission and other income | 274,096 | 304,762 | 229,259 | - | 64,119 | 187,683 | 1,059,919 |
| Property related income | - | - | - | - | 8,986 | - | 8,986 |
| Total Income | 1,069,744 | 591,223 | 290,213 | - | 102,038 | 187,683 | 2,240,901 |
| General and administrative expenses | | | | | | | (774,327) |
| Net impairment allowance on loans and receivables | | | | | | | (60,525) |
| Share of profit of associate companies | | | | | | | 322,532 |
| Profit from operations | | | | | | | 1,728,581 |
| Minority interests | | | | | | | 3,545 |
| Profit for the year | | | | | | | 1,732,126 |
| Segment Assets | 33,555,213 | 6,745,674 | 12,651,478 | - | 3,326,351 | 3,114,151 | 59,392,867 |
| Segment Liabilities | 23,516,506 | 11,517,115 | 18,136,207 | - | 4,074,393 | 2,148,646 | 59,392,867 |

Included in segment liabilities are equity holders' funds which have been allocated to the different segments based on the relative size of the segment assets.

## 32 BUSINESS SEGMENT REPORTING (continued)

| | Government, Corporate & Commercial AED 000 | Retail AED 000 | Investment & Funds Management AED 000 | Real Estate Activities AED 000 | Islamic Banking Activities AED 000 | Other AED 000 | Total AED 000 |
|---|---|---|---|---|---|---|---|
| 31 December 2004 | | | | | | | |
| Interest Income | 787,762 | 281,551 | 129,506 | - | - | - | 1,198,819 |
| Income from Islamic financing | - | - | - | - | 1,851 | - | 1,851 |
| Interest Expense | (293,227) | (27,662) | (59,555) | - | - | - | (380,444) |
| Distribution to depositors | - | - | - | - | (3,145) | - | (3,145) |
| Net Interest Income | 494,535 | 253,889 | 69,951 | - | (1,294) | - | 817,081 |
| Net fees, commission and other income | 212,421 | 122,938 | 160,909 | 32,145 | 27,543 | 115,616 | 671,572 |
| Property related income | - | - | - | 110,496 | - | - | 110,496 |
| Total Income | 706,956 | 376,827 | 230,860 | 142,641 | 26,249 | 115,616 | 1,599,149 |
| General and administrative expenses | | | | | | | (606,003) |
| Net recoveries on loans and receivables | | | | | | | 130 |
| Share of profit of associate companies | | | | | | | 40,377 |
| Profit from operations | | | | | | | 1,033,653 |
| Minority interests | | | | | | | (61,526) |
| Profit for the year | | | | | | | 972,127 |
| Segment Assets | 24,702,497 | 4,274,786 | 7,482,156 | - | 832,457 | 1,176,762 | 38,468,658 |
| Segment Liabilities | 16,463,330 | 7,546,136 | 11,853,429 | - | 1,295,647 | 1,310,116 | 38,468,658 |

## 33 SUBSIDIARIES AND ASSOCIATE COMPANIES

As at 31 December 2005

| | % Share-holding | Nature of business | Country of incorporation |
|---|---|---|---|
| Subsidiaries of Emirates Bank International PJSC | | | |
| Diners Club (UAE) LLC | 100 | International charge card | Dubai, U.A.E. |
| Emirates Financial Services PSC | 100 | Funds management | Dubai, U.A.E. |
| Network International LLC | 100 | Card services | Dubai, U.A.E. |
| Global Training Centre LLC | 100 | Training services | Dubai, U.A.E. |
| Emirates International Brokerage LLC | 100 | Brokerage services | Dubai, U.A.E. |
| Heritage Insurance Brokers LLC | 99 | Insurance brokerage | Dubai, U.A.E. |
| Emirates Islamic Bank PJSC (formerly Middle East Bank PJSC) [see note (a) below] | 99.8 | Islamic banking | Dubai, U.A.E. |
| Dubai Bank Limited [see note (c) below] | 97 | Commercial banking | Dubai, U.A.E. |
| E-Commerce and Trade Services (Middle East) LLC | 51 | Trade finance services | Dubai, U.A.E. |
| Associate companies | | | |
| Union Properties Group [see note (b) below] | 48.7 | Real estate | Dubai, U.A.E. |
| Emirates Loyalty Company LLC (indirect ownership through Network International LLC, a 100% subsidiary) | 40 | Customer loyalty smart card services | Dubai, U.A.E. |
| National General Insurance Company PSC | 37.1 | General and life insurance | Dubai, U.A.E. |

## 33 SUBSIDIARIES AND ASSOCIATE COMPANIES (continued)

Note

(a) Middle East Bank PJSC held an extraordinary shareholder's meeting on 10 March 2004 where a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Sharia rules and principles. The entire process was completed on 09 October 2004 ("the transformation date"). As a result the Bank transformed its conventional banking products into Islamic banking products as at that date after negotiation and agreement with its customers.

(b) During the year, the Bank reduced its shareholding in the company from 48.9% at 31 December 2004 to 48.7% at 31 December 2005 [see note 5].

(c) The business, assets and undertakings of Dubai Bank Limited have been transferred at carrying value to Emirates Bank International PJSC.

## 34 COMMITMENTS AND CONTINGENCIES

(a) At 31 December 2005, the Group's contingent liabilities are as follows:

| | 2005<br>AED 000 | 2004<br>AED 000 |
|---|---|---|
| Letters of credit | 7,541,148 | 4,004,356 |
| Guarantees | 10,491,090 | 6,326,358 |
| | 18,032,238 | 10,330,714 |

(b) Acceptances

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

(c) Irrevocable loan commitments

The Group has irrevocable undrawn loan commitments outstanding at 31 December 2005 of AED 4,509.2 million (2004 - AED 2,629.8 million).

(d) Capital commitments

The Group has commitments for branch refurbishments and automation projects of AED 149.3 million (2004 - AED 13.9 million) and the Group's share of associate company commitments for property developments amounts to AED 599.9 million (2004 - AED 179.8 million).

(e) The Bank has a number of pending tax cases in Cairo and management is currently discussing settlements with the tax authorities.

## 35 FOREIGN CURRENCY EXPOSURE

The Group had a short position of US Dollars 2,437.9 million as at 31 December 2005 (2004 - USD 1,364.7 million) and a long position of Saudi Riyals 2,604.8 million (2004 – SAR 37.11 million). There were no significant open positions in any other currencies.

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

## 36 RELATED PARTY TRANSACTIONS

Banking transactions are carried out with certain related parties. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Related party transactions are as follows:

| | 2005<br>AED 000 | 2004<br>AED 000 |
|---|---|---|
| Loans to majority shareholder | 4,004,715 | 3,275,310 |
| Deposits from majority shareholder | 380,348 | 532,615 |
| Investment in Government of Dubai bonds | 75,000 | 72,883 |
| Loans to directors and related companies | 485,600 | 382,932 |
| Loans to and investments in funds managed by the Group | 646,190 | 60,664 |
| Fees received in respect of funds managed by the Group | 11,066 | 8,120 |
| Interest paid to funds managed by the Group | 6,680 | 243 |

The total amount of compensation paid to directors and key management personnel during the year is as follows :

| | 2005<br>AED 000 | 2004<br>AED 000 |
|---|---|---|
| Short term employee benefits | 17,958 | 11,648 |
| Post employment benefits | 1,006 | 682 |

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

## 37 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table summarises the carrying amounts and the face values of those financial assets and liabilities or comparatives thereof not presented on the Group's consolidated balance sheet at their fair value:

| | Carrying Value | | Fair Value | |
|---|---|---|---|---|
| | 2005 AED 000 | 2004 AED 000 | 2005 AED 000 | 2004 AED 000 |
| **Financial assets** | | | | |
| Due from banks | 7,770,730 | 4,510,074 | 7,770,894 | 4,510,278 |
| Loans and receivables | 38,567,246 | 27,412,295 | 38,559,997 | 27,429,031 |
| Islamic financing and investment products | 2,441,351 | 421,496 | 2,441,351 | 421,496 |
| Investment securities | 3,238,937 | 1,347,174 | 3,242,495 | 1,366,727 |
| Investment in associate companies | 1,980,239 | 795,093 | 5,564,744 | 2,537,970 |
| **Financial liabilities** | | | | |
| Customer deposits | 29,464,340 | 19,424,018 | 29,464,340 | 19,424,018 |
| Islamic customer deposits | 3,593,716 | 1,233,654 | 3,593,716 | 1,233,654 |
| Due to banks | 8,951,118 | 4,779,519 | 8,951,017 | 4,780,411 |
| Deposits under repurchase agreement | 355,087 | 355,087 | 355,087 | 355,087 |
| Medium term borrowing | 6,409,385 | 5,564,595 | 6,409,385 | 5,564,595 |

## 37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Due from banks

Due from banks includes overnight, call and short notice accounts and time loans having a maturity of up to five years. The deposits and loans are being repriced daily, monthly, quarterly and six monthly depending on the tenure of the placements using the prevailing market rates at the repricing date. The deposits and loans are all expected to be realised on maturity.

(b) Loans and receivables

Loans and receivables are net of impairment allowances.

A significant portion of the Group's loans and receivables portfolio comprises lending to corporate customers. These facilities are given at a variable rate determined, generally, with reference to the cost of funds and market rates besides the usual parameters of tenor and risk evaluation.

The balance of the loans and receivables portfolio comprises personal loans. The average interest rate on these loans at the year-end is in line with the rate charged for such lending in the local banking market.

(c) Islamic financing and investment products

On conversion from conventional loans to Islamic financing and investment products, the fees levied were comparable to those prevailing in the market for similar products. There has been no significant change in the fees levied on these products at the year ended 31 December 2005.

(d) Investment securities

Investments are classified as available for sale, held to maturity or fair value through the profit and loss account. The fair value of investments is based on the quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the investment is estimated using pricing models or discounted cash flow techniques. Held to maturity investments are net of impairment allowances.

The Bank's investment in two associate companies is accounted for on equity accounting basis [see note 2 (a)] which amount to AED 1,980.2 million at 31 December 2005 (AED 795.1 million at 31 December 2004). The fair value of both investments, which are public quoted companies on the Dubai Financial Markets, amounts to AED 5,564.7 million at 31 December 2005 (AED 2,537.9 million at 31 December 2004).

## 37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(e) Customer deposits

Customer deposits comprise a significant amount of fixed deposits with an original maturity, generally, of one to three months. These deposits are repayable on maturity. A significant portion of these deposits has been maintained with the Bank for a number of years on a roll over basis. For customer deposits maturing after three months of the year end date, a fair value has been arrived at by applying appropriate interest rates prevailing at the year end to these balances.

The balance of the customer deposits primarily comprising interest bearing savings, call and fixed deposit accounts and non-interest bearing current accounts, is repayable on demand.

(f) Islamic customer deposits

Islamic customer deposits receive a share of the profits of the Islamic Bank which has been approved by the Sharia Committee at the year end.

(g) Due to banks

Due to banks includes short-term borrowings with an original maturity, generally, of less than three months and non-interest bearing deposits. The short-term borrowings are repayable on maturity. The non-interest bearing deposits are repayable on demand. For borrowings maturing after three months of the balance sheet date, the fair value has been arrived at by applying the prevailing market interest rates to these deposits.

(h) Deposits under repurchase agreement

These deposits are repriced on a quarterly basis and thus the carrying value is comparable to the fair value of the deposit.

(i) Medium term borrowing

These borrowings have repayment periods of up to three years and the loans were taken at a variable rate determined, generally, with reference to ninety-day LIBOR rates.

**EMIRATES BANK INTERNATIONAL PJSC**
**NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2005**

## 38 INTEREST RATE REPRICING ANALYSIS

| | Less than 1 Month AED '000 | Over 1 month to 3 months AED '000 | Over 3 months to 6 months AED '000 | Over 6 months to 1 year AED '000 | Over 1 year AED '000 | Non interest bearing AED '000 | TOTAL AED '000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and deposits with Central Banks | 67,023 | - | - | - | - | 2,000,847 | 2,067,870 |
| Due from banks | 5,604,583 | 1,457,535 | 452,188 | 86,255 | 75,081 | 95,088 | 7,770,730 |
| Loans and receivables | 16,017,383 | 13,122,564 | 4,201,451 | 1,404,027 | 3,616,798 | 205,023 | 38,567,246 |
| Islamic financing and investment products | 238,013 | 108,636 | 154,267 | 288,395 | 1,652,040 | - | 2,441,351 |
| Investment securities | 90,945 | 69,360 | 119,056 | 177,242 | 670,621 | 2,111,713 | 3,238,937 |
| Investment in associate companies | - | - | - | - | - | 1,980,239 | 1,980,239 |
| Investment properties | - | - | - | - | - | 128,729 | 128,729 |
| Property and equipment | - | - | - | - | - | 242,885 | 242,885 |
| Positive fair value of derivatives | - | - | - | - | - | 890,393 | 890,393 |
| Customer acceptances | - | - | - | - | - | 856,448 | 856,448 |
| Other assets | - | - | - | - | - | 1,208,039 | 1,208,039 |
| **TOTAL ASSETS** | 22,017,947 | 14,758,095 | 4,926,962 | 1,955,919 | 6,014,540 | 9,719,404 | 59,392,867 |
| **LIABILITIES AND EQUITY HOLDERS' FUNDS** | | | | | | | |
| Customer deposits | 16,305,639 | 4,248,139 | 1,275,044 | 1,303,222 | 315,372 | 6,016,924 | 29,464,340 |
| Islamic customer deposits | 613,122 | 313,834 | 279,953 | 755,899 | 539,893 | 1,091,015 | 3,593,716 |
| Due to banks | 7,632,099 | 967,270 | 75,920 | - | - | 275,829 | 8,951,118 |
| Deposits under repurchase agreement | - | 355,087 | - | - | - | - | 355,087 |
| Medium term borrowing | 3,526,080 | 2,883,305 | - | - | - | - | 6,409,385 |
| Minority interests | - | - | - | - | - | 1,288 | 1,288 |
| Negative fair value of derivatives | - | - | - | - | - | 923,578 | 923,578 |
| Customer acceptances | - | - | - | - | - | 856,448 | 856,448 |
| Other liabilities | - | - | - | - | - | 1,088,976 | 1,088,976 |
| Equity holders' funds | - | - | - | - | - | 7,748,931 | 7,748,931 |
| **TOTAL LIABILITIES AND EQUITY HOLDERS' FUNDS** | 28,076,940 | 8,767,635 | 1,630,917 | 2,059,121 | 855,265 | 18,002,989 | 59,392,867 |
| **ON BALANCE SHEET GAP** | (6,058,993) | 5,990,460 | 3,296,045 | (103,202) | 5,159,275 | (8,283,585) | - |
| **OFF BALANCE SHEET GAP** | (2,224,237) | (39,433) | - | 1,774,059 | 489,611 | - | - |
| **INTEREST RATE SENSITIVITY GAP – 2005** | (8,283,230) | 5,951,027 | 3,296,045 | 1,670,857 | 5,648,886 | (8,283,585) | - |
| **CUMULATIVE INTEREST RATE SENSITIVITY GAP - 2005** | (8,283,230) | (2,332,203) | 963,842 | 2,634,699 | 8,283,585 | - | - |
| **CUMULATIVE INTEREST RATE SENSITIVITY GAP - 2004** | (3,514,538) | 1,024,914 | 4,366,660 | 5,176,994 | 7,118,778 | - | - |

Repricing of assets and liabilities has been determined on the basis of contractual pricing or maturity dates, whichever dates are earlier.
The off balance sheet gap represents the net notional amounts of off balance sheet financial instruments such as interest rate swaps which are used to manage interest rate risk.
Interest rate swaps that have been used for asset and liability management purposes to hedge overall exposure to interest rate risk are included separately as off balance sheet gaps.
The allowances for impairment losses is deducted on a pro-rata basis over the various repricing profiles of loans and advances.

**EMIRATES BANK INTERNATIONAL PJSC**

**NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2005**

## 39 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

| | GCC AED '000 | International AED '000 | Total AED '000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and deposits with Central Banks | 2,067,842 | 28 | 2,067,870 |
| Due from banks | 3,288,521 | 4,482,209 | 7,770,730 |
| Loans and receivables | 34,893,619 | 3,673,627 | 38,567,246 |
| Islamic financing and investment products | 2,357,803 | 83,548 | 2,441,351 |
| Investment securities | 2,140,250 | 1,098,687 | 3,238,937 |
| Investment in associate companies | 1,980,239 | - | 1,980,239 |
| Investment properties | 128,729 | - | 128,729 |
| Property and equipment | 240,843 | 2,042 | 242,885 |
| Positive fair value of derivatives | 890,393 | - | 890,393 |
| Customer acceptances | 842,559 | 13,889 | 856,448 |
| Other assets | 1,137,467 | 70,572 | 1,208,039 |
| **TOTAL ASSETS** | 49,968,265 | 9,424,602 | 59,392,867 |
| **LIABILITIES** | | | |
| Customer deposits | 27,811,720 | 1,652,620 | 29,464,340 |
| Islamic customer deposits | 3,582,713 | 11,003 | 3,593,716 |
| Due to banks | 7,248,437 | 1,702,681 | 8,951,118 |
| Deposits under repurchase agreement | - | 355,087 | 355,087 |
| Medium term borrowing | - | 6,409,385 | 6,409,385 |
| Minority interests | 1,288 | - | 1,288 |
| Negative fair value of derivatives | 923,578 | - | 923,578 |
| Customer acceptances | 842,559 | 13,889 | 856,448 |
| Other liabilities | 651,875 | 437,101 | 1,088,976 |
| Equity holders' funds | 7,748,931 | - | 7,748,931 |
| **TOTAL LIABILITIES AND EQUITY HOLDERS' FUNDS** | 48,811,101 | 10,581,766 | 59,392,867 |
| **GEOGRAPHICAL DISTRIBUTION OF OFF BALANCE SHEET ITEMS – 2005** | | | |
| Letters of Credit and Guarantees | 17,228,364 | 803,874 | 18,032,238 |
| **GEOGRAPHICAL DISTRIBUTION OF ASSETS – 2004** | 30,759,459 | 7,709,199 | 38,468,658 |
| **GEOGRAPHICAL DISTRIBUTION OF LIABILITIES AND EQUITY HOLDERS' FUNDS – 2004** | 31,552,385 | 6,916,273 | 38,468,658 |
| **GEOGRAPHICAL DISTRIBUTION OF OFF BALANCE SHEET ITEMS – 2004** | 9,827,678 | 503,036 | 10,330,714 |

**EMIRATES BANK INTERNATIONAL PJSC**
**NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2005**

## 40 MATURITY PROFILE OF ASSETS AND LIABILITIES

| | 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 Central Banks | 2,067,870 | - | - | - | - | 2,067,870 |
| Due from banks | 6,834,616 | 697,180 | 158,349 | 80,585 | - | 7,770,730 |
| Loans and receivables | 16,939,298 | 3,834,736 | 5,145,965 | 4,892,008 | 7,755,239 | 38,567,246 |
| Islamic financing and investment products | 308,201 | 442,662 | 795,777 | 576,103 | 318,608 | 2,441,351 |
| Investment securities | 477,282 | 1,086,290 | 1,273,280 | 271,875 | 130,210 | 3,238,937 |
| Investment in associate companies | - | - | - | - | 1,980,239 | 1,980,239 |
| Investment properties | - | - | 128,729 | - | - | 128,729 |
| Property and equipment | 30,554 | 15,083 | 40,565 | 42,066 | 114,617 | 242,885 |
| Positive fair value of derivatives | 890,393 | - | - | - | - | 890,393 |
| Customer acceptances | 683,330 | 150,672 | 22,446 | - | - | 856,448 |
| Other assets | 1,066,628 | 141,411 | - | - | - | 1,208,039 |
| **TOTAL ASSETS** | 29,298,172 | 6,368,034 | 7,565,111 | 5,862,637 | 10,298,913 | 59,392,867 |
| **LIABILITIES** | | | | | | |
| Customer deposits | 26,566,410 | 2,582,558 | 315,372 | - | - | 29,464,340 |
| Islamic customer deposits | 1,025,147 | 1,330,428 | 1,238,141 | - | - | 3,593,716 |
| Due to banks | 8,620,513 | 330,605 | - | - | - | 8,951,118 |
| Deposits under repurchase agreement | - | - | 355,087 | - | - | 355,087 |
| Medium term borrowing | - | - | 1,689,580 | 4,719,805 | - | 6,409,385 |
| Minority interests | - | - | - | - | 1,288 | 1,288 |
| Negative fair value of derivatives | 923,578 | - | - | - | - | 923,578 |
| Customer acceptances | 683,330 | 150,672 | 22,446 | - | - | 856,448 |
| Other liabilities | 968,439 | 68,821 | - | - | 51,716 | 1,088,976 |
| Equity holders' funds | - | - | - | - | 7,748,931 | 7,748,931 |
| **TOTAL LIABILITIES AND EQUITY HOLDERS' FUNDS** | 38,787,417 | 4,463,084 | 3,620,626 | 4,719,805 | 7,801,935 | 59,392,867 |
| **OFF BALANCE SHEET** | | | | | | |
| Letters of Credit and Guarantees | 5,047,716 | 3,279,208 | 9,705,314 | - | - | 18,032,238 |
| **MATURITY PROFILE 2004** | | | | | | |
| **ASSETS - 2004** | 18,029,110 | 3,047,524 | 4,774,756 | 3,717,505 | 8,899,763 | 38,468,658 |
| **LIABILITIES - 2004** | 24,948,734 | 2,098,345 | 3,365,341 | 2,191,587 | 5,864,651 | 38,468,658 |
| **OFF BALANCE SHEET ITEMS - 2004** | 3,882,831 | 1,890,592 | 4,547,291 | 10,000 | - | 10,330,714 |

Maturity of assets and liabilities has been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date.
The allowances for impairment losses is deducted on a pro-rata basis over the various maturity profiles of loans and advances.

## 41 NOTE TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

| | | 2005 AED 000 | 2004 AED 000 |
|---|---|---|---|
| (a) | Analysis of changes in cash and cash equivalents during the year | | |
| | Balance at beginning of year | 721,229 | 766,495 |
| | Net cash outflow | (2,074,595) | (45,266) |
| | Balance at end of year | (1,353,366) | 721,229 |
| (b) | Analysis of cash and cash equivalents | | |
| | Cash and deposits with Central Banks | 2,067,870 | 2,570,809 |
| | Due from banks | 7,770,730 | 4,510,074 |
| | Due to banks | (8,951,118) | (4,779,519) |
| | | 887,482 | 2,301,364 |
| | Less : deposits with Central Banks for regulatory purposes | (1,635,339) | (1,217,964) |
| | Less : amounts due from banks maturing after 3 months | (936,114) | (717,027) |
| | Add : amounts due to banks maturing after 3 months | 330,605 | 354,856 |
| | | (1,353,366) | 721,229 |

## 42 RISK MANAGEMENT STATEMENT

All banking activities involve taking a certain level of risk. These risks fall into two categories: those that should be minimised and those that should be optimised. Risks, which the Group minimises, are Operational Risks, which could cause financial or reputational loss. The Group optimises Credit Risk and Market Risk, so that the risk taken is in line with the risk appetite established by the Board of Directors and is commensurate with the likely reward.

(a) Operational Risk

This is the risk that due to failures in people, processes or systems, or because of adverse external events losses are incurred, opportunities are forgone or the Group's reputation is harmed. These risks are minimised. The units, which oversee this policy, are Group Compliance and Group Risk Management, which under the guidance of the Chief Risk Officer maintain a suitable framework in which the Group may identify, manage and monitor such risks. The Group Operational Risk Committee (ORC) brings together the CRO and relevant business heads to facilitate prudent oversight of these risks.

(b) Credit Risk

This is the risk that a counterparty to a transaction may fail to perform according to the terms and conditions of the contract or that an investment experiences default, thus causing the Group to suffer a loss in terms of cash flow or market value.

Credit assessment within the Group follows established policies and procedures set out in the Group's Credit Manual. Exposure to individual customers is controlled by reviews conducted by the Group's Credit Department subject to a limit structure managed under the supervision of the Board Credit and Investment Committee (BCIC) which itself reviews larger exposures. These reviews are refreshed periodically to ensure that asset quality is maintained.

Careful adherence to the policies maintained by Group Risk Management and selection of creditworthy borrowers keeps the risk : reward relationship in balance.

The Group further limits risk through diversification of its assets by industrial sector thus reducing the likelihood of loss in the event of a downturn in any one segment. Lending to the real estate sector and personal loans are subject to ceilings imposed by the Central Bank of the UAE.

## 42 RISK MANAGEMENT STATEMENT (continued)

Limits are also set for financial institutions and other counterparties as well as for each country to which the Group has exposure. These limits are regularly monitored to prevent undue exposures to any single customer, institution or country.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties – carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Market Risk

The Asset and Liability Committee (ALCO) of the Group, comprises members of Senior Management from major business lines and Group Risk Management. It meets monthly to monitor the Group's liquidity requirements, lending ratio, interest (gap) limits, foreign currency exposure and other Market Risk issues. ALCO also develops the information base and analytical tools required to manage Market Risk together with appropriate policies and procedures. The principal areas of focus are foreign exchange, interest mismatch and liquidity exposures.

## 42 RISK MANAGEMENT STATEMENT (continued)

(i) Foreign exchange risks are controlled through limits established by the Board of Directors on counterparty and currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Compliance with position limits is monitored on an ongoing basis. The Treasury Manual of the Group sets out the details of overnight exposures, which are strictly adhered to. The foreign currency positions of local and overseas operations are monitored closely by Head Office.

(ii) The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced relatively frequently and exposures arising on any capital funds and medium term fixed rate lending are covered by interest rate swaps.

(iii) Liquidity risk is the risk an enterprise may encounter in raising funds to meet its obligation at any given time. The Group's liquidity management policies are designed to ensure that, even under adverse conditions, the Group is able comfortably to meet its obligations at acceptable cost. Assumptions are tested so as to protect against adverse shocks and changes in market conditions and the sources of low cost Liquidity are diversified in order to tap a broad and deep pool of funds.

The Group's dealing activity is focused upon assisting its corporate customers in managing foreign exchange exposure and interest rate exposure arising from their business activities. The Group's Corporate dealings and exposure to financial markets are usually matched by equal and opposite trades so as to contain open positions within well controlled limits.

Proprietary trading in foreign exchange and derivatives is kept within strict limits and is subject to specific oversight from Group Risk Management.

Derivatives are used primarily to satisfy the requirements of the Group's customers and are also used to a limited extent to manage the Group's own exposures to currency, interest rate and other Market Risks. The most frequently used Derivative products are Forward Rate Agreements, Foreign Currency Options, and Interest Rate Swaps and Options. Each has carefully laid down policies, procedures and limits to control Market Risk.

## 43 CAPITAL ADEQUACY

The capital adequacy ratio calculated in accordance with the guidelines of the Central Bank of the UAE is as follows:

| | 2005 AED 000 | 2004 AED 000 |
|---|---|---|
| Total Capital Base (a) | 7,748,719 | 5,816,236 |

| **Risk Weighted Exposure** | Notional Principal Amount 2005 AED 000 | Risk Weighted Exposure 2005 AED 000 | Notional Principal Amount 2004 AED 000 | Risk Weighted Exposure 2004 AED 000 |
|---|---|---|---|---|
| Cash and deposits with Central Banks | 2,067,870 | - | 2,570,809 | - |
| Due from banks | 7,770,730 | 1,733,057 | 4,510,074 | 1,627,829 |
| Loans and receivables | 38,567,246 | 31,541,146 | 27,412,295 | 23,199,122 |
| Islamic banking products | 2,441,351 | 2,313,075 | 421,496 | 315,461 |
| Investment securities | 3,238,937 | 2,739,967 | 1,347,174 | 839,438 |
| Investment in associate companies | 1,980,239 | 1,980,239 | 795,093 | 795,093 |
| Investment properties | 128,729 | 128,729 | 172,455 | 172,455 |
| Property and equipment | 242,885 | 242,885 | 179,231 | 179,231 |
| Positive fair value of derivatives | 890,393 | 51,458 | 250,423 | 52,812 |
| Customer acceptances | 856,448 | 844,918 | 408,029 | 405,352 |
| Other assets | 1,208,039 | 1,208,039 | 401,579 | 401,579 |
| | 59,392,867 | 42,783,513 | 38,468,658 | 27,988,372 |
| **Off Balance Sheet items** | | | | |
| Credit related contingent items | 18,032,238 | 4,631,011 | 10,330,714 | 3,074,443 |
| Total risk weighted assets (b) | | 47,414,524 | | 31,062,815 |
| Capital adequacy ratio (a) / (b) | | 16.3% | | 18.7% |

## 43 CAPITAL ADEQUACY (continued)

The risk weighted equivalents for foreign exchange transactions are determined using the current exposure method. A credit conversion factor as determined by the Central Bank of the UAE is applied to the replacement cost of these contracts. The resultant amounts are then risk weighted according to the classification of the counterparty.

## 44 FUND MANAGEMENT

The Group manages a number of equity funds which are not consolidated in the financial statements. The funds have no recourse to the general assets of the Group; further the Group has no recourse to the assets of the funds. Third party funds managed by the Group were AED 3,675 million at 31 December 2005 (2004 - AED 1,396 million).

## 45 COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated where appropriate to conform with the presentation and accounting policies adopted in these financial statements.