Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

AUDITORS' REPORT TO THE SHAREHOLDERS OF DUBAI ISLAMIC BANK (PUBLIC JOINT STOCK COMPANY)

We have audited the accompanying consolidated balance sheet of Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Sharia'a rules and principles are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These financial statements include the net profits and net assets of Bank of Khartoum amounting to AED 5,762,000 and AED 293,168,000 respectively. The financial statements of Bank of Khartoum were audited by other auditors whose report has been furnished to us.

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

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries as of 31 December 2005 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards and comply, where appropriate, with the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980, Federal Law No. 6 of 1985 and the Sharia'a rules and principles as determined by the Sharia'a Supervisory Board of the Bank.

We also confirm that in our opinion proper books of account have been kept by the Bank and the contents of the report of the Board of Directors relating to these consolidated financial statements are in agreement with the books of account of the Bank and its subsidiaries. We have obtained all the information and explanations we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the articles of association of the Bank, Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 or Federal Law No. 6 of 1985 have occurred during the year which would have had a material effect on the business of the Bank or on its financial position.

Signed by:
Edward B. Quinlan
Registration No. 93

22 January 2006

Dubai, United Arab Emirates

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Notes	*2005* *AED'000*	*2004* *AED'000*
INCOME			
Income from Islamic financing and investing assets	5	**1,690,200**	1,016,573
Income from international murabahat, short term		**196,409**	154,460
Income from investment properties	6	**149,906**	145,368
Income from sale of development properties, net	7	**141,626**	33,643
Commissions, fees and foreign exchange income	8	**444,741**	112,844
Share of profits (losses) of associates	17	**343**	(3,809)
Other income		**72,818**	10,939
TOTAL INCOME		**2,696,043**	1,470,018
EXPENSES			
General and administrative expenses	9	**(569,464)**	(335,619)
Depreciation of investment properties	16	**(11,612)**	(27,887)
Provisions for impairment	10	**(130,173)**	(88,716)
TOTAL EXPENSES		**(711,249)**	(452,222)
Profit before depositors' share and tax		**1,984,794**	1,017,796
Depositors' share of profits	11	**(918,405)**	(556,763)
Profit for the year before tax		**1,066,389**	461,033
Income tax expense	27	**(3,015)**	-
PROFIT FOR THE YEAR		**1,063,374**	461,033
Attributable to:			
Shareholders of the parent		**1,061,069**	461,033
Minority interests		**2,305**	-
		1,063,374	461,033
Basic earnings per share attributable to the shareholders of the parent (Dirham)	12	**0.70**	0.40

The attached notes 1 to 46 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
At 31 December 2005

	Notes	2005 AED'000	2004 AED'000
ASSETS			
Cash and balances with Central Banks	13	**3,166,104**	2,067,210
Balances and deposits with banks		**829,116**	225,759
International murabahat, short term		**5,657,841**	7,502,571
Islamic financing and investing assets	14	**28,305,912**	17,487,113
Development properties	15	**543,160**	216,518
Investment properties	16	**749,285**	1,138,379
Investments in associates	17	**86,644**	73,566
Other investments	18	**2,012,758**	1,298,064
Receivables and other assets	20	**1,203,374**	477,726
Fixed assets	21	**401,765**	126,455
Goodwill	22	**42,320**	-
Total assets		**42,998,279**	30,613,361
LIABILITIES			
Customers' deposits	24	**33,391,950**	24,941,016
Due to banks and other financial institutions	25	**4,099,357**	1,393,178
Other liabilities	26	**1,628,155**	1,277,684
Accrued zakat	28	**39,612**	14,877
Total liabilities		**39,159,074**	27,626,755
Shareholders' equity			
Attributable to equity holders of the parent:			
Share capital	29	**1,500,000**	1,500,000
ESOP shares	30	**(8,226)**	(8,226)
Statutory reserve	31	**731,700**	625,566
Donated land reserve	31	**286,951**	284,701
General reserve	31	**595,000**	280,000
Exchange translation reserve		**8,320**	-
Retained earnings		**5,460**	5,378
Proposed dividends	32	**598,354**	299,177
		3,717,559	2,986,596
Minority interests	33	**121,646**	10
Total equity		**3,839,205**	2,986,606
Total liabilities and equity		**42,998,279**	30,613,361
Contingent liabilities	34	**8,081,461**	2,785,261

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors dated 22 January 2006.

H. E. Dr. Mohammad K. Kharbash Chairman	H. E. Sultan Saeed Al Mansouri Deputy Chairman	Saad Abdul Razak Chief Executive Officer

The attached notes 1 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2005

	Notes	***2005 AED'000***	*2004 AED'000*
OPERATING ACTIVITIES			
Profit before tax		**1,066,389**	461,033
Adjustments for:			
Provisions for impairment		**130,173**	88,716
Depreciation of investment properties		**11,612**	27,887
Depreciation of fixed assets		**30,873**	22,671
Revaluation of investments at fair value through income statement		**(254,847)**	(157,097)
Gain on sale of investment properties		**(90,701)**	(84,204)
Income from sale of development properties		**(141,626)**	(33,643)
Share of (profits) losses of associates		**(343)**	3,809
Dividend income		**(34,439)**	(14,434)
		717,091	314,738
Changes in operating assets and liabilities			
Investment deposits with banks		**-**	55,095
Trading investments		**(40,766)**	-
Islamic financing and investing assets		**(10,068,041)**	(5,313,908)
Receivables and other assets		**(647,012)**	(184,240)
Customers' deposits		**7,228,408**	5,057,763
Due to banks and other financial institutions		**2,682,113**	1,072,442
Other liabilities		**(114,922)**	416,327
Accrued Zakat		**(11,414)**	(10,039)
Net cash (used in) provided by operating activities		**(254,543)**	1,408,178
INVESTING ACTIVITIES			
Purchase of held to maturity investments		**(106,893)**	(50,103)
Purchase of investments at fair value through income statement (net)		**(121,934)**	(41,415)
Purchase of available for sale investments		**(173,073)**	(570,946)
Proceeds from sale of development properties		**483,816**	189,317
Proceeds from disposal of investment properties		**465,223**	343,848
Purchase of investment properties		**(142,485)**	(337,813)
Purchase of development properties		**(545,554)**	(208,042)
Dividend income		**34,439**	14,434
Investments in associates		**(12,735)**	(37,021)
Purchase of fixed assets		**(71,001)**	(43,409)
Proceeds from sale of fixed assets		**2,452**	11,710
Exchange and other adjustments		**1,750**	279
Cash outflow on acquisition of subsidiary	22	**(209,362)**	-
Net cash used in investing activities		**(395,357)**	(729,161)

The attached notes 1 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS - continued
Year ended 31 December 2005

	Notes	*2005* *AED'000*	*2004* *AED'000*
FINANCING ACTIVITIES			
Dividends paid		**(299,177)**	(150,000)
Issue of shares		**-**	1,000,000
ESOP shares acquired		**-**	(8,226)
Minority interests		**1,473**	(4,258)
Net cash (used in) from financing activities		**(297,704)**	837,516
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(947,604)**	1,516,533
Cash balances acquired on acquisition of subsidiary	22	**805,125**	-
Cash and cash equivalents at the beginning of the year	35	**9,749,062**	8,232,529
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	35	**9,606,583**	9,749,062

The attached notes 1 to 46 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Attributable to equity holders of the parent											
	Share capital AED'000	*ESOP shares AED'000*	*Statutory reserve AED'000*	*Donated land reserve AED'000*	*General reserve AED'000*	*Exchange translation reserve AED'000*	*Retained earnings AED'000*	*Proposed scrip dividends AED'000*	*Proposed cash dividends AED'000*	*Total AED'000*	*Minority interests AED'000*	*Total equity AED'000*
As at 31 December 2003	1,000,000	-	79,463	284,701	180,000	-	4,016	-	150,000	1,698,180	4,268	1,702,448
Profit for the year	-	-	-	-	-	-	461,033	-	-	461,033	-	461,033
Total income and expense for the year	-	-	-	-	-	-	461,033	-	-	461,033	-	461,033
Issue of shares	500,000	-	500,000	-	-	-	-	-	-	1,000,000	-	1,000,000
Shares acquired (Note 30)	-	(8,226)	-	-	-	-	-	-	-	(8,226)	-	(8,226)
Transfer to reserves	-	-	46,103	-	100,000	-	(146,103)	-	-	-	-	-
Dividends paid – 2004	-	-	-	-	-	-	-	-	(150,000)	(150,000)	-	(150,000)
Zakat	-	-	-	-	-	-	(11,541)	-	-	(11,541)	-	(11,541)
Directors' fees	-	-	-	-	-	-	(2,850)	-	-	(2,850)	-	(2,850)
Proposed dividends	-	-	-	-	-	-	(299,177)	-	299,177	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	(4,258)	(4,258)
As of 31 December 2004	1,500,000	(8,226)	625,566	284,701	280,000	-	5,378	-	299,177	2,986,596	10	2,986,606

The attached notes 1 to 46 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Attributable to equity holders of the parent											
	Share capital AED'000	*ESOP shares AED'000*	*Statutory reserve AED'000*	*Donated land reserve AED'000*	*General reserve AED'000*	*Exchange translation reserve AED'000*	*Retained earnings AED'000*	*Proposed scrip dividends AED'000*	*Proposed cash dividends AED'000*	*Total AED'000*	*Minority interests AED'000*	*Total equity AED'000*
As of 31 December 2004	1,500,000	(8,226)	625,566	284,701	280,000	-	5,378	-	299,177	2,986,596	10	2,986,606
Income and expense for the year recognised directly in equity – exchange adjustments	-	-	-	-	-	8,320	-	-	-	8,320	6,497	14,817
Profit for the year	-	-	-	-	-	-	1,061,069	-	-	1,061,069	2,305	1,063,374
Total income and expense for the year	-	-	-	-	-	8,320	1,061,069	-	-	1,069,389	8,802	1,078,191
Net movement in donated land reserve	-	-	-	2,250	-	-	-	-	-	2,250	-	2,250
Minority interest in subsidiary acquired during the year	-	-	-	-	-	-	-	-	-	-	111,361	111,361
Transfer to reserves	-	-	106,134	-	315,000	-	(421,134)	-	-	-	-	-
Dividends paid – 2004	-	-	-	-	-	-	-	-	(299,177)	(299,177)	-	(299,177)
Zakat	-	-	-	-	-	-	(36,149)	-	-	(36,149)	-	(36,149)
Directors' fees	-	-	-	-	-	-	(5,350)	-	-	(5,350)	-	(5,350)
Proposed dividends	-	-	-	-	-	-	(598,354)	299,177	299,177	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-	1,473	1,473
As of 31 December 2005	1,500,000	(8,226)	731,700	286,951	595,000	8,320	5,460	299,177	299,177	3,717,559	121,646	3,839,205

The attached notes 1 to 46 form part of these financial statements.

1 ACTIVITIES

Dubai Islamic Bank (Public Joint Stock Company) was incorporated by an Amiri Decree issued on 29 Safar 1395 Hijri, corresponding to 12 March 1975 by His Highness, the Ruler of Dubai, to provide banking and related services based on Islamic Sharia'a principles. It was subsequently registered under the Commercial Companies Law number 8 of 1984 (as amended) as a Public Joint Stock Company.

In addition to its main office in Dubai, the Bank operates through 26 branches (2004: 22 branches) in the U.A.E. The accompanying consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries (the Group) and its associates and joint ventures:

Subsidiaries	Principal activity	Country of incorporation	Registered percentage of equity 2005	2004
1. Bank of Khartoum	Banking	Sudan	**60.0%**	-
2. Islamic Financial Services L.L.C.	Brokerage services	UAE	**95.5%**	95.5%
3. Deyaar Development P.S.C.	Real estate development	UAE	**95.5%**	95.5%
4. Omega Engineering L.L.C.	Mechanical, electrical &plumping	UAE	**55.0%**	-
5. Al Tanmyah Services L.L.C.	Labour services	UAE	**99.5%**	99.5%
6. Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	UAE	**98.0%**	98.0%
7. DIB Printing Press L.L.C.	Printing	UAE	**99.5%**	99.5%
8. Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**96.0%**	-
9. Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**96.0%**	-
10. Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	-
11. United Mineral Water P.S.C.	Bottling of natural water	Egypt	**-**	88.2%
12. Emirates Trading Center L.L.C.	Trading in motor vehicles	UAE	**100.0%**	100.0%
13. Islamic Investment Company P.S.C.	Financing & investing	UAE	**95.5%**	95.5%
14. Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	UAE	**75.5%**	75.5%
15. Zone One Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
16. Zone Two Real Estate Management Co.	Investments in real estate	Cayman Islands	**100.0%**	100.0%
17. Al Islami Trade Finance FZ L.L.C.	Investments	UAE	**100.0%**	100.0%
18. DIB Lease One Ltd.	Investments	Bahamas	**100.0%**	100.0%
19. DIB Lease One (Dublin) Ltd.	Investments	Ireland	**100.0%**	100.0%
20. Gulf Atlantic FZ L.L.C.	Investments	UAE	**100.0%**	100.0%
21. Al Islami Oceanic Shipping Co FZ L.L.C	Investments	UAE	**100.0%**	100.0%
22. Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	**100.0%**	-
23. DIB Tower SAL	Investment in real estate	Lebanon	**100.0%**	100.0%

In addition to the registered ownership described above, the remaining equity in the entities 2 to 9 and 13 is also held by the Bank beneficially through nominee arrangements.

During the year, the Bank acquired a 60% interest in Bank of Khartoum, a bank incorporated in Khartoum, Sudan and disposed of its investment in United Mineral Water P.S.C. The Bank also set up three entities in Egypt to deal with its investments in real estate in Egypt.

Associates	Principal activity	Country of incorporation	Percentage of equity 2005	2004
24. Dubai Islamic Insurance & Reinsurance Co. (AMAN)	Islamic insurance	UAE	**16.0%**	25.0%
25. Bosnia International Bank	Banking	Bosnia	**27.3%**	27.3%
26. Liquidity Management Center (B.S.C)	Brokers	Bahrain	**25.0%**	25.0%
27. Emirates National Securitization Corporation	Securitization	Cayman Islands	**35.0%**	35.0%
28. BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	**27.3%**	-

1 ACTIVITIES - continued

Joint ventures	*Principal activity*	*Country of incorporation*	*Percentage of equity*	
			2005	*2004*
29. Al Bustan Center Company L.L.C.	Rental of apartments and shops	UAE	**50.0%**	50.0%
30. Tamweel L.L.C	Real estate financing	UAE	**50.0%**	50.0%
31. Gulf Tankers L.L.C.	Cargo and transport	UAE	**50.0%**	50.0%
32. Genyx L.L.C.	Training	UAE	**50.0%**	50.0%

The entities listed under 13 and 31 did not conduct any operations during the current or previous years. The entity listed under 24 has been dealt with as an associate, as the Bank continues to exercise significant influence over its financial and operating policies.

The Bank carries out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna'a, Mudaraba, Musharaka, Ijarah, Wakala, etc. The activities of the Group are conducted in accordance with Islamic Sharia'a, which prohibits usury, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

The address of the registered office of the Bank is P.O. Box 1080, Dubai, United Arab Emirates.

2 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of investments, other than held to maturity investments, and foreign exchange contracts.

The consolidated financial statements have been presented in UAE Dirhams.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, Sharia'a rules and principles as determined by the Bank's Sharia'a Supervisory Board and applicable requirements of UAE laws.

Basis of consolidation
The consolidated financial statements include the financial statements of the Bank and each of the entities that it controls (the Group - see note 1) together with its interest in the associates and joint ventures. Control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of an entity's capital or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

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

2 BASIS OF PREPARATION - continued

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

Investments carried at fair value through income statement
Certain investments previously classified as available for sale have been redesignated as investments carried at fair value through income statement. The Group now classifies non-trading investments upon initial recognition into the following three categories:

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

In accordance with the transition provisions of the revised standards, this redesignation was effected as at 1 January 2004. The value of available for sale investments redesignated as at 1 January 2004 was AED 372,383 thousand. This redesignation has had no effect on reported results as fair value adjustments were earlier included in the income statement.

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

Significant management judgements and estimates

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant impact on the amounts recognised in the consolidated financial statements.

Transfer of equitable interest in properties
The Group has entered into a number of contracts with buyers for the sale of land and apartment units. Management has determined that equitable interest in such assets and therefore risks and rewards of the ownership are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. The risk of the buyer being able to rescind the contract for reasons stated in the contract which are dependent on the enactment of pending legislation is considered by management to be remote. Based on this, the Group recognizes revenues and profits as the acts to complete the property are performed.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement or available for sale.

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

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

2 BASIS OF PREPARATION - continued

Significant management judgements and estimates – continued

Judgements - continued
Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

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

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

Collective impairment provisions on financing and investing assets
In addition to specific provisions against individually significant financing and investment assets, the Group also makes a collective impairment provision against facilities which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for facilities within each grade and is adjusted to reflect current economic changes.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units.

Costs to complete properties under development
The Group estimates the cost to complete properties under development in order to determine the cost attributable to revenue being recognised. These estimates include the cost of providing infrastructure activities, potential claims by sub contractors and the cost of meeting other contractual obligations to the customers.

Valuation of investment properties
The Group hires the services of third party valuers for obtaining estimates of the valuation of investment properties.

3 DEFINITIONS

The following terms are used in the consolidated financial statements with the meaning specified:

Murabaha
An agreement whereby the Group sells to a customer a commodity or asset, which the Group 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.

3 DEFINITIONS - continued

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

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

Musharaka
An agreement between the Group 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.

Mudaraba
An agreement between the Group and a third party whereby one party would provide a certain amount of funds, which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib 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 Group 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.

4 SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

Murabaha
Murabaha income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a
Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the bank's total Istisna'a cost) is accounted for on a time- apportioned basis.

Ijarah
Ijarah income is recognised on a time- apportioned basis over the lease term.

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

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Mudaraba
Income or losses on Mudaraba financing are recognized on an accrual basis if they can be reliably estimated. Otherwise, income is recognized on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Sale of property
Revenue on sale of apartments is recognized on the basis of percentage completion as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, to the date of the financial statements, is adequate to demonstrate a commitment to pay for the property;
- Construction work has commenced with engineering, design work and site clearance being completed;
- The buyer is committed. The buyer is unable to require a refund except for non-delivery of the unit. Management believes that the likelihood of the Group being unable to fulfill its contractual obligations is remote; and
- The aggregate sales proceeds and costs can be reasonably estimated.

Fee and commission income
Fee and commission income is recognised when earned.

Rental income
Rental income is recognized on an accrual basis.

Dividends
Dividends from investments in equities are recognised when the right to receive the dividend is established.

Cost of sale of property
Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

Balances and deposits with banks
Balances and deposits with banks are stated at cost less amounts written off and provision for impairment, if any.

International Murabahat, short term
International Murabahat, short term are stated at cost less provisions for impairment and deferred profits.

Islamic financing and investing assets
Islamic financing and investing assets consist of Murabaha receivables, Mudaraba, Musharaka, investments under Wakala arrangements, Istisna'a and Ijarah contracts.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing and investing assets are stated at cost less any provisions for impairment and deferred income.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Development Properties
Properties acquired, constructed or in the course of construction for sale are classified as development properties. Unsold properties are stated at the lower of cost and net realizable value. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

Investment properties
Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives.

Investments in joint ventures
The Group's interests in joint ventures, which are defined as those entities which are subject to joint control, are accounted for under the proportionate consolidation method whereby the Group accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

Investments in associates
Investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at the lower of the equity-accounted amount and the recoverable amount. Associates are enterprises in which the Group generally holds 20% to 50% of the voting power or over which it exercises significant influence.

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

Non-trading investments

These are classified as follows:
- Held to maturity
- Investments carried at fair value through income statement
- Available for sale

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

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

Investments carried at fair value through income statement
Investments are classified as fair value through income statement if the fair value of the investment can be reliably measured and the classification as fair value through income statement is as per the documented strategy of the Group. Investments classified as "Investments at fair value through income statement" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the income statement.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

Depreciation is provided on a straight-line basis over the estimated useful lives of all fixed assets, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

• Buildings	15-25 years
• Plant and machinery	15-20 years
• Furniture and office equipment	3-5 years
• Information technology	3-5 years
• Motor vehicles	3 years

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount and, where carrying values exceed this recoverable amount, assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of fixed assets. All other expenditure is recognised in the income statement as the expense is incurred.

Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of acquisition over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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

Deposits
Customer deposits and due to banks and other financial institutions are carried at cost.

Employees' end of service benefits
With respect to its U.A.E. national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

The Group provides end of service benefits to its other employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

Zakat
Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:

- Zakat on shareholders' equity is deducted from their dividends and is computed on their zakat pool (shareholders' equity less paid up capital, donated land reserve plus employees' end of service benefits).
- Zakat on profit equalization provision is charged to this provision after it has been calculated.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves.

Allocation of profit
Allocation of profits between depositors and shareholders is calculated according to the Group's standard procedures and is approved by the Bank's Sharia'a Supervisory Board.

Cash and cash equivalents
For the purpose of preparation of the consolidated statement of cash flows, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international Murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

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

Forfeited income
According to the Sharia'a Supervisory Boards, the Group is required to identify any income deemed to be derived from sources not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities (forfeited income).

4 SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

(a) for assets carried at fair value, impairment is the difference between cost and fair value.
(b) for assets carried at cost, impairment is based on the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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

In addition, a provision is made to cover collective impairment for groups of assets based on their estimated recoverable amounts.

Foreign exchange contracts
Foreign exchange contracts are stated at fair value. The fair value of a foreign exchange contract is the equivalent of the unrealized gain or loss from marking to market the contract using prevailing market rates. Foreign exchange contracts with positive market value (unrealized gain) are included in other assets and contracts with negative market value (unrealized losses) are included in other liabilities in the balance sheet.

ESOP shares
ESOP shares consist of the Bank's own shares that have been acquired by the Bank under its Employee Stock Ownership Plan and not yet reissued or cancelled. These shares are accounted for using the cost method. Under the cost method, the average cost of the shares is shown as a deduction from total shareholders' equity. When these shares are reissued, gains are credited to a separate capital reserve in shareholders' equity, which is non distributable.

Foreign currencies
Transactions in foreign currencies are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the exchange rates prevailing at that date. Any gain or loss arising from changes in exchange rates subsequent to the date of a transaction is recognized in the consolidated income statement.

Assets and liabilities of foreign operations are not deemed an integral part of the head office's operations and are translated at rates of exchange ruling at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Any exchange differences are taken directly to a foreign currency translation adjustment reserve.

4 SIGNIFICANT ACCOUNTING POLICIES - continued

Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted investments, a reasonable estimate of the fair value is determined by reference to the market value of a similar investment or is based on acceptable valuation techniques.

For investments in properties, fair value is determined periodically on the basis of independent professional valuations.

5 INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	2005 AED'000	*2004 AED'000*
Financing		
Commodities murabahat	**411,358**	273,560
Vehicles murabahat	**184,762**	151,167
Istisna'a	**139,394**	136,436
Ijara	**247,593**	99,577
	983,107	660,740
Investing		
Musharakat	**150,988**	75,077
Mudarabat	**69,158**	33,156
Wakalat	**7,112**	10,329
Investment funds	**80,039**	53,428
Others	**9,500**	12,312
	316,797	184,302
Investments in companies		
Dividend income	**34,439**	14,434
Loss on trading investments	**(2,658)**	-
Gain on sale of investments carried at fair value through income statement	**103,668**	**-**
Gain on revaluation of investments carried at fair value through income statement	**254,847**	157,097
	390,296	171,531
Total income from Islamic financing and investing assets	**1,690,200**	1,016,573

Others amounting to AED 9,500,000 (2004: AED 12,312,000) are presented net of forfeited income of AED 6,203,000 (2004: AED 4,502,000).

6 INCOME FROM INVESTMENT PROPERTIES

	2005 AED'000	2004 AED'000
Rental income	**40,627**	52,642
Gain on sale of investment properties	**90,701**	84,204
Others	**18,578**	8,522
	149,906	145,368

7 INCOME FROM SALE OF DEVELOPMENT PROPERTIES

	2005 AED'000	2004 AED'000
Revenue	**483,816**	189,317
Cost of sale (note 15)	**(342,190)**	(155,674)
	141,626	33,643

8 COMMISSIONS, FEES AND FOREIGN EXCHANGE INCOME

	2005 AED'000	2004 AED'000
Commissions and fees	**428,811**	91,822
Foreign exchange gains	**15,930**	21,022
	444,741	112,844

9 GENERAL AND ADMINISTRATIVE EXPENSES

	2005 AED'000	2004 AED'000
Payroll and payroll-related expenses	**335,226**	212,033
Operating expenses	**129,087**	59,308
Administrative expenses	**74,278**	41,607
Depreciation of fixed assets	**30,873**	22,671
	569,464	335,619

10 PROVISIONS FOR IMPAIRMENT

	2005 AED'000	2004 AED'000
Financing and investing assets (note 14)	**118,654**	63,225
Others	**11,519**	25,491
	130,173	88,716

11 DEPOSITORS' SHARE OF PROFITS

	2005	*2004*
	AED'000	*AED'000*
Share for the year	**918,405**	556,763
Less: Pertaining to depositors' profit equalisation provision (Note 36)	**(8,305)**	(5,524)
Transfer (to) / from depositors' profit equalisation provision (Note 36)	**(4,511)**	2,100
Depositors' share of profits from a subsidiary on acquisition	**33,144**	-
	938,733	553,339
Less: Paid during the year	**(653,877)**	**-**
Depositors' share of profit payable net (Note 26)	**284,856**	553,339

12 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to the shareholders' of the parent for the year, net of directors' remuneration, of AED 1,055,719,000 (2004: AED 458,183,000) by the weighted average number of shares outstanding during the year of 1,495,887,000 of AED 1 each (2004: 1,145,205,480 of AED 1 each).

The earnings per share of AED 4.00 reported for 2004 has been adjusted for the effect of the share split during 2005 as described in note 29. No figures for diluted earnings per share have been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

13 CASH AND BALANCES WITH CENTRAL BANKS

	2005	*2004*
	AED'000	*AED'000*
Cash in hand	**505,096**	**233,218**
Balances with central banks:		
Current accounts	**867,575**	**540,416**
Reserve requirements	**1,793,433**	**1,293,576**
	3,166,104	**2,067,210**

14 ISLAMIC FINANCING AND INVESTING ASSETS

	2005 AED'000	2004 AED'000
Financing		
Commodities Murabahat	**5,322,281**	3,578,551
International Murabahat	**3,763,437**	2,772,411
Vehicles Murabahat	**3,006,849**	2,391,242
Real Estate Murabahat	**1,905,860**	923,320
Total Murabahat	**13,998,427**	9,665,524
Istisna'a	**2,636,913**	2,298,274
Ijara	**6,482,638**	4,702,097
Others	**-**	18,787
	23,117,978	16,684,682
Less: Deferred income	**(1,667,490)**	(1,375,297)
Contractors and consultants' Istisna'a contracts	**(475,898)**	(409,828)
Down payments from Istisna'a customers	**-**	(9,742)
Provisions for impairment	**(746,279)**	(661,948)
	20,228,311	14,227,867
Investing		
Musharakat	**5,827,754**	1,709,610
Mudarabat	**2,191,682**	1,323,484
Wakalat	**153,749**	289,148
	8,173,185	3,322,242
Less: Provisions for impairment	**(95,584)**	(62,996)
	8,077,601	3,259,246
Total Islamic financing and investing assets, net	**28,305,912**	17,487,113

Gross Islamic financing and investing assets by geographical area are as follows:

	2005 AED'000	2004 AED'000
Within U.A.E.	**20,803,819**	16,280,266
Outside U.A.E.	**10,487,344**	3,726,658
	31,291,163	20,006,924

14 ISLAMIC FINANCING AND INVESTING ASSETS - continued

Islamic financing and investing assets by industry group are as follows:

	2005 *AED'000*	2004 *AED'000*
Financial institutions	**5,113,612**	1,432,294
Real estate	**8,362,402**	6,439,081
Trade	**2,406,786**	2,812,415
Government	**8,370,227**	2,799,965
Manufacturing and services	**2,314,940**	3,626,226
Personal financing and others	**4,723,195**	2,896,943
	31,291,163	20,006,924

Movements in the provision for impairment are as follows:

	2005 *AED'000*	2004 *AED'000*
Balance, beginning of the year	**724,944**	661,719
Charge for the year (Note 10)	**118,654**	63,225
Write-offs	**(1,735)**	-
Balance, end of the year	**841,863**	724,944

15 DEVELOPMENT PROPERTIES

	2005 *AED'000*	2004 *AED'000*
Balance, beginning of year	**216,518**	66,842
Additions during the year	**545,554**	208,042
Transfer from investment properties	**123,278**	97,308
Less: Transferred to cost of sale of properties (note 7)	**(342,190)**	(155,674)
Balance, end of year	**543,160**	216,518

Development properties amounting to AED 132 million (2004: AED 75 million) are registered in the name of third parties on trust for the Bank. The Bank is in the process of completing formalities to transfer the title in those properties to its name.

16 INVESTMENT PROPERTIES

	2005 AED'000	*2004 AED'000*
Land		
In U.A.E.	**427,186**	503,376
Outside U.A.E.	**76,133**	301,364
	503,319	804,740
Less: Provision for impairment	**(300)**	(300)
	503,019	804,440
Other real estate		
In U.A.E.	**331,209**	523,628
Outside U.A.E.	**2,713**	2,713
	333,922	526,341
Less: Accumulated depreciation and provision for impairment	**(87,656)**	(192,402)
	246,266	333,939
Investment properties, net	**749,285**	1,138,379

The fair value of the Group's investment properties as of 31 December 2005 is AED 1,151,813,000 (2004: AED 1,752,940,000) as per valuations conducted by independent valuers and the Group's real estate division.

Land in the UAE includes land valued at AED 286,951,000 (2004: AED 284,701,000) donated by the Government which has been allocated for the sole benefit of the shareholders.

The movement in investment properties is as follows:

	Land AED '000	*Other Real Estate AED '000*	*Total AED '000*
Cost:			
Balance, beginning of the year	804,740	526,341	**1,331,081**
Additions during the year	144,735	-	**144,735**
Disposals during the year	(322,878)	(168,002)	**(490,880)**
Transfers to development properties / fixed assets	(123,278)	(24,417)	**(147,695)**
Balance, end of the year	503,319	333,922	**837,241**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	192,402	**192,702**
Charge for the year	-	11,612	**11,612**
Relating to disposals	-	(116,358)	**(116,358)**
Balance, end of the year	300	87,656	**87,956**
Net book value:			
31 December 2005	503,019	246,266	**749,285**
31 December 2004	804,440	333,939	**1,138,379**

17 INVESTMENTS IN ASSOCIATES

Investments in associated companies comprise:

	2005	*2004*
	AED'000	*AED'000*
Share in capital	**90,110**	77,375
Share of losses	**(3,466)**	(3,809)
	86,644	73,566

The Bank's associated companies are set out in note 1.

18 OTHER INVESTMENTS

	2005	*2004*
	AED'000	*AED'000*
Trading investments	**40,766**	-
Investments carried at fair value through income statement	**706,904**	330,123
Available for sale investments	**1,108,092**	917,838
Held-to-maturity investments	**156,996**	50,103
	2,012,758	1,298,064

Trading investments

Trading investments comprise investments in quoted equities only.

Investments carried at fair value through income statement are as follows:

	2005	*2004*
	AED'000	*AED'000*
Equities - quoted	**706,904**	330,123

Available for sale investments comprise the following:

	2005	*2004*
	AED'000	*AED'000*
Unquoted equities:		
Local	**150,321**	2,910
Foreign	**970,919**	928,416
	1,121,240	931,326
Less: Provision for impairment	**(13,148)**	(13,488)
	1,108,092	917,838

Available for sale investments are carried at cost due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value.

Held-to-maturity investments

Held-to-maturity investments at the year end comprise investments in Islamic Sukuk.

19 INVESTMENTS IN JOINT VENTURES

The Group's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are as under:

	2005 AED'000	*2004 AED'000*
Cash and balances with banks	**124,882**	57,342
Islamic financing and investing assets	**616,362**	-
Development properties	**-**	10,938
Receivables and other assets	**69,333**	146,367
Fixed assets	**12,176**	7,497
Total assets	**822,753**	222,144
Other liabilities	**196,985**	62,283
Profit for the year	**37,377**	24,949

20 RECEIVABLES AND OTHER ASSETS

	2005 AED'000	*2004 AED'000*
Checks sent for collection	**340,355**	157,396
Trade receivables	**197,225**	13,677
Other income receivable	**125,528**	65,214
Advances for purchase of properties	**106,097**	40,906
Rental income receivable	**48,393**	39,834
Advances to contractors	**45,290**	27,442
Prepaid expenses	**27,433**	24,714
Overdrawn current accounts, net	**2,728**	16,808
Qard Hassan (profit-free loans)	**8,000**	3,996
Inventories	**33,054**	12,744
Others	**269,271**	74,995
	1,203,374	477,726

Overdrawn current accounts are stated net of provision for impairment of AED 31,119,000 (2004: AED 19,600,000).

Inventories pertain to subsidiaries and are stated at the lower of cost and net realisable value.

21 FIXED ASSETS

	Land and buildings AED'000	*Plant and machinery AED'000*	*Furniture and office equipment AED'000*	*Information technology AED'000*	*Motor vehicles AED'000*	*Construction in progress AED'000*	*Total AED'000*
Cost:							
As of 1 January 2005	51,348	81,989	108,261	44,460	6,073	12,603	304,734
Acquisition of a subsidiary (note 22)	187,796	-	19,526	-	8,166	-	215,488
Additions	10,408	974	27,697	11,588	4,280	16,054	71,001
Disposals	(5,269)	(10,440)	(765)	-	(865)	-	(17,339)
Transfer from investment properties	24,417	-	-	-	-	-	24,417
Other transfers	-	4,282	1,413	4,603	-	(10,298)	-
Exchange adjustment	8,576	-	1,339	-	560	-	10,475
Balance as of 31 December 2005	277,276	76,805	157,471	60,651	18,214	18,359	608,776
Accumulated depreciation:							
As of 1 January 2005	24,454	51,903	60,288	37,447	4,187	-	178,279
Acquisition of a subsidiary (note 22)	3,088	-	6,073	-	2,767	-	11,928
Charge for the year	4,967	3,803	16,767	4,040	1,296	-	30,873
Disposals	(3,081)	(10,440)	(665)	-	(701)	-	(14,887)
Exchange adjustment	216	-	412	-	190	-	818
Balance as of 31 December 2005	29,644	45,266	82,875	41,487	7,739	-	207,011
Net book value and carrying value:							
31 December 2005	**247,632**	**31,539**	**74,596**	**19,164**	**10,475**	**18,359**	**401,765**
31 December 2004	26,894	30,086	47,973	7,013	1,886	12,603	126,455

In the opinion of management, there are no indications of impairment losses.

22 BUSINESS COMBINATION

On 31 July 2005, the Group acquired 60% interest in Bank of Khartoum based in Khartoum, Sudan and engaged in banking activities. The fair value of identifiable assets and liabilities of Bank of Khartoum acquired at that date were as follows:

	Recognised on acquisition 2005 AED'000	*Carrying value 2005 AED'000*
Cash and balances with central bank	**805,125**	**805,125**
Islamic financing and investing assets	**867,677**	**867,677**
Other investments	**17,181**	**17,181**
Other assets	**90,155**	**90,155**
Fixed assets, net	**203,560**	**140,692**
Total assets	**1,983,698**	**1,920,830**
Customer deposits	**1,222,526**	**1,222,526**
Due to banks	**24,066**	**24,066**
Other liabilities	**458,703**	**458,703**
Total liabilities	**1,705,295**	**1,705,295**
Fair value of net assets – 100%	**278,403**	
Share of net assets acquired – 60%	**167,042**	
Cash outflow on acquisition	**209,362**	
Goodwill arising on acquisition	**42,320**	

23 IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to Bank of Khartoum as a cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets approved by senior management. The key assumptions of the value in use calculations are those regarding growth rates and expected changes to selling prices and direct costs during the period. The growth rates are based on management estimates having regard to industry growth rates. Changes in income and direct costs are based on past practices and expectations of future changes in the market.

For the year ended 31 December 2005, in respect of Bank of Khartoum, there have been no events or changes in circumstances to indicate carrying values may be impaired.

24 CUSTOMERS' DEPOSITS

	2005 AED'000	*2004 AED'000*
a) By type:		
Current accounts	**7,015,356**	4,762,526
Saving accounts	**5,654,891**	3,778,598
Investment deposits	**20,403,363**	16,100,128
Margins	**182,885**	173,662
Profit equalisation provision (Note 36)	**135,455**	126,102
	33,391,950	24,941,016
b) By maturity:		
Demand deposits	**12,988,587**	8,840,888
Deposits due within 3 months	**5,250,220**	6,826,450
Deposits due within 6 months	**1,164,639**	4,199,553
Deposits due within 1 year	**13,988,504**	5,074,125
	33,391,950	24,941,016
c) By geographical areas:		
Within U.A.E.	**31,615,164**	24,941,016
Outside U.A.E.	**1,776,786**	-
	33,391,950	24,941,016
d) By currency:		
U.A.E. Dirham	**30,306,345**	24,539,418
Other currencies, mainly Sudanese Dinar and U.S. Dollars	**3,085,605**	401,598
	33,391,950	24,941,016

25 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005 AED'000	*2004 AED'000*
Current accounts	**251,197**	23,104
Investment deposits	**2,484,780**	451,730
Short term financing	**1,363,380**	918,344
	4,099,357	1,393,178

26 OTHER LIABILITIES

	2005 AED'000	2004 AED'000
Depositors' share of profit (Note 11)	**284,856**	553,339
Checks received for collection	**129,078**	187,763
Bankers checks	**195,713**	138,602
Sundry deposits	**518,536**	102,582
Payable to contractors	**31,889**	46,608
Rent received in advance	**49,778**	39,776
Provision for employees' end-of-service benefits	**41,840**	24,805
Retentions payable	**14,580**	16,573
Trade payable	**90,591**	30,213
Unclaimed dividends	**27,169**	15,198
Directors' remuneration	**5,350**	2,850
Provision for taxation	**26,956**	-
Others	**211,819**	119,375
	1,628,155	1,277,684

27 TAXATION

	2005 AED'000	2004 AED'000
Balance payable on acquisition of subsidiary	**22,766**	-
Current period charge	**3,015**	-
Exchange adjustments	**1,175**	-
Balance payable at end of period	**26,956**	-

28 ACCRUED ZAKAT

	2005 AED'000	2004 AED'000
Zakat on shareholders' equity (except for share capital)	**36,149**	11,541
Zakat on profit equalization provision (Note 36)	**3,463**	3,336
	39,612	14,877

29 SHARE CAPITAL

	2005	*2004*
	AED'000	*AED'000*
Authorised capital		
3,000,000,000 shares of AED 1 each (2004: 300,000,000 shares of AED 10 each)	**3,000,000**	3,000,000
Issued and fully paid-up		
1,500,000,000 shares of AED 1 each (2004: 150,000,000 shares of AED 10 each)	**1,500,000**	1,500,000

At an Extraordinary General Meeting of the shareholders of the Bank held on 12 July 2005, the shareholders resolved to split the nominal value of each share from AED 10 to AED 1 per share, thereby increasing the number of issued shares from 150,000,000 shares to 1,500,000,000 shares.

30 EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In 2004, the Bank established an Employee Stock Ownership Plan (ESOP) to recognize and retain good performing key employees. The Plan gives the employee the right to own the Bank's shares at the issue price.

In accordance with a resolution of the shareholders of the Bank at the Extraordinary General Meeting of shareholders held on 26 June 2004, the shareholders surrendered 2% of their share entitlement under the Bank's rights issue, at the rights issue price of AED 20 per share, for the benefit of the Bank's employees under this plan. Under this arrangement, the bank acquired 913,999 of its own shares at the issue price of AED 20 per share.

Out of the above shares, the Bank granted 502,699 shares during 2004 at the rights issue price of AED 20 per share to key employees who achieved certain pre-determined criteria. These employees' entitlement to ownership became effective on or before 31 December 2004. These shares carry full dividend and voting rights. The fair value of these shares at 31 December 2004 was estimated at AED 46.7 million.

The remaining 411,300 shares of AED 10 each acquired by the Bank under this scheme are held as ESOP shares. These are now equivalent to 4,113,000 shares of AED 1 each after the share split during 2005 and will be issued to employees in the future as and when the employees meet the pre-determined criteria under the ESOP. The cost of acquisition of these shares was AED 8,226 thousand at the rate of AED 20 per share of a nominal value of AED 10 each. The fair value of these shares at 31 December 2005 is estimated at AED 119.9 million (2004: AED 38.2 million). When issued to employees, the fair value of these shares, on the date of issue, will be charged to the income statement.

31 RESERVES

Statutory reserve
Article 192 of the UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution. The statutory reserve includes AED 500 million being the premium collected at AED 10 per share on the rights issue.

Donated land reserve
The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (Note 16). The donated land reserve represents the fair value of the land at the time of the donation.

31 RESERVES - continued

General reserve
Transfer to general reserve is made based on the discretion of the Board of Directors and approved by the shareholders at the annual general meeting.

32 PROPOSED DIVIDENDS

	2005 AED'000	*2004 AED'000*
Cash dividend at 20%	**299,177**	299,177
Scrip dividend at 20%	**299,177**	-
	598,354	299,177

The Board of Directors has proposed a cash dividend at AED 0.20 per share of AED 1 each and a scrip dividend at AED 0.20 per share of AED 1 each (2004: cash dividend of AED 2 per share of AED 10 each). These are subject to the approval of the shareholders at the Annual General Meeting.

33 MINORITY INTEREST

Minority interest represents the minority shareholders' proportionate share in the aggregate value of the net assets of the subsidiaries and the results of the subsidiaries operations.

34 CONTINGENT LIABILITIES AND COMMITMENTS

Financing-related financial instruments
Financing-related financial instruments include commitments to extend financing, standby letters of credit and guarantees which are designed to meet the requirements of the Group's customers.

Commitments to extend financing represent contractual commitments to provide Islamic financing. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has outstanding commitments and contingent liabilities under letters of credit and guarantees arising in the normal course of business, as follows:

	2005 AED'000	*2004 AED'000*
Commitments on behalf of customers:		
Letters of guarantee	**6,230,996**	2,235,337
Letters of credit	**1,850,465**	549,924
	8,081,461	2,785,261
Commitments		
Future capital expenditure commitments	**146,223**	179,033
Other commitments	**859,138**	-

35 CASH AND CASH EQUIVALENTS

	2005 AED'000	2004 AED'000
Cash and balances with central banks	**3,166,104**	2,067,210
International Murabahat, short term	**5,657,841**	7,502,571
Balances and deposits with banks	**829,116**	225,759
Less:		
Deposits with banks with original maturity over 3 months	**(46,478)**	(46,478)
	9,606,583	9,749,062

36 PROFIT EQUALIZATION PROVISION

	2005 AED'000	2004 AED'000
Balance, beginning of the year	**126,102**	126,014
Share of profit for the year (Note 11)	**8,305**	5,524
	134,407	131,538
Zakat for the year (note 28)	**(3,463)**	(3,336)
Additional transfer from / (to) depositors' share of profit during the year (Note 11)	**4,511**	(2,100)
Balance, end of the year (Note 24)	**135,455**	126,102

Profit equalization provision represents a portion of the depositors' share of profits set aside as a provision. This provision is payable to the depositors upon the approval of the Board of Directors and the Bank's Sharia'a Supervisory Board. Zakat on profit equalization provision is included under accrued Zakat.

37 RELATED PARTY TRANSACTIONS

The Group enters into transactions with directors, key management personnel and their related concerns in the ordinary course of business at commercial interest and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

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

			2005		
	Major shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Others AED'000	Total AED'000
Financing and investing activities	**6,689,304**	**185,528**	**-**	**354,373**	**7,229,205**
Customers' deposits	**11,357**	**14,785**	**7,500**	**-**	**33,642**
Contingent liabilities	**4,250**	**13,799**	**-**	**-**	**18,049**
Income from financing and investing activities	**88,724**	**3,506**	**-**	**11,156**	**103,386**
Depositors' share of profit	**288**	**228**	**644**	**-**	**1,160**

37 RELATED PARTY TRANSACTIONS - continued

	2004				
	Major shareholders AED'000	*Directors and key management personnel AED'000*	*Associates AED'000*	*Others AED'000*	*Total AED'000*
Financing and investing activities	3,062,416	68,057	-	39,300	3,169,773
Customers' deposits	3,665	32,438	39,000	-	75,103
Contingent liabilities	-	13,559	-	-	13,559
Income from financing and investing activities	53,987	4,410	-	1,068	59,465
Depositors' share of profit	67	539	1,123	-	1,729

The compensation paid to key management personnel of the Bank is as follows:

	2005 AED'000	*2004 AED'000*
Salaries and other benefits	**14,864**	7,933
Employee terminal benefits	**399**	375

38 SEGMENTAL INFORMATION

For operating purposes the Group is organised into two major business segments: Financing activities, which principally provide murabahats, istisna'a, ijara and other financing facilities and deposit and current accounts for corporate, government, institutional and individual customers and Investment activities, which involves the management of the Group's investment and development properties, entering into musharakats, mudarabats, wakalat and participating in investment funds. These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

	Financing activities		*Investing activities*		*Total*	
	2005 AED'000	*2004 AED'000*	***2005 AED'000***	*2004 AED'000*	***2005 AED'000***	*2004 AED'000*
Segment revenue	**1,370,580**	887,644	**1,325,463**	582,374	**2,696,043**	1,470,018
Inter-segment adjustment	**195,951**	182,138	**(195,951)**	(182,138)	**-**	-
	1,566,531	1,069,782	**1,129,512**	400,236	**2,696,043**	1,470,018
Profit before depositors' share and tax					**1,984,794**	1,017,796
Depositors' share of profit					**(918,405)**	(556,763)
Profit for the year before tax					**1,066,389**	461,033
Income tax expense					**(3,015)**	-
Profit for the year					**1,063,374**	461,033

38 SEGMENTAL INFORMATION - continued

	Financing activities		*Investing activities*		*Total*	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
	AED'000	*AED'000*	***AED'000***	*AED'000*	***AED'000***	*AED'000*
Segment assets	**33,335,510**	24,195,865	**9,662,769**	6,417,496	**42,998,279**	30,613,361
Segment liabilities and equity	**38,475,680**	29,069,573	**4,522,599**	1,543,788	**42,998,279**	30,613,361

Although the management of the Group is based primarily on business segments, the Group operates in two geographic markets: UAE which is designated as domestic and outside the UAE which is designated as international. The following table shows the distribution of the Group's operating income, total assets and capital expenditure by geographical segment:

	Domestic		***International***		***Total***	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
	AED 000	*AED 000*	***AED 000***	*AED 000*	***AED 000***	*AED 000*
Gross income	**2,574,894**	1,470,081	**121,149**	-	**2,696,043**	1,470,018
Total assets	**40,573,645**	30,613,361	**2,424,634**	-	**42,998,279**	30,613,361
Capital expenditure	**60,527**	43,409	**10,474**	-	**71,001**	43,409

39 CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

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

The Group seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. For details of the composition of financing and investing activities refer to Note 14.

40 MARKET RISK

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. This is managed on the basis of pre-determined asset allocation across various asset categories and a continuous appraisal of market conditions and trends.

41 PROFIT MARGIN RISK

The Group is not significantly exposed to any risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Group does not provide contractual rates of return to its depositors or investment account holders.

The return payable to depositors and investment account holders is based on the principle of the Mudaraba contract by which the depositors and investment account holders agree to share the profit or loss made by the Group over a given period.

42 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group had significant overbought positions in US Dollars and Saudi Riyals of AED equivalent to 15,902 million and 1,066 million respectively as at 31 December 2005 (2004: AED equivalent 9,557 million and 2,515 million respectively). There was no significant open position in any other currency. The UAE Dirham/US Dollar dealing rate fixed by the UAE Central Bank has remained virtually unchanged since November 1980.

43 FOREIGN EXCHANGE CONTRACTS

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

31 December 2005:

				Notional amounts by term of 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 6 month AED'000***	***Over 6 months to 12 months AED'000***	***Over 1 to 5 years AED'000***
Held for trading:							
Foreign exchange contracts	**1,052**	**9,365**	**1,505,738**	**1,262,217**	**204,132**	**39,389**	**-**

31 December 2004:

				Notional amounts by term of 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 6 month AED'000*	*Over 6 months to 12 months AED'000*	*Over 1 to 5 years AED'000*
Held for trading:							
Foreign exchange contracts	-	14,775	189,016	-	137,766	51,250	-

Product type
Foreign exchange contracts are contractual agreements to either buy or sell a specified currency at a specific price and date in the future.

43 FOREIGN EXCHANGE CONTRACTS - continued

Related credit risk

Credit risk in respect of foreign exchange contracts arises from the potential for a counterparty to default on its contractual obligation and is limited to the positive fair value of instruments that are favorable to the Group. All of the Group's contracts are entered into with other financial institutions.

44 LIQUIDITY RISK

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

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangements.

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

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2005				
Assets:				
Cash and balances with central banks	**3,166,104**	**-**	**-**	**3,166,104**
Balances and deposits with banks	**829,116**	**-**	**-**	**829,116**
International Murabahat, short term	**4,445,997**	**1,211,844**	**-**	**5,657,841**
Islamic financing and investing assets, net	**4,811,519**	**4,684,204**	**18,810,189**	**28,305,912**
Development properties	**-**	**-**	**543,160**	**543,160**
Investment properties, net	**-**	**-**	**749,285**	**749,285**
Investments in associates	**-**	**-**	**86,644**	**86,644**
Other investments, net	**747,670**	**-**	**1,265,088**	**2,012,758**
Receivables and other assets	**1,203,374**	**-**	**-**	**1,203,374**
Fixed assets, net	**-**	**-**	**401,765**	**401,765**
Goodwill	**-**	**-**	**42,320**	**42,320**
Total assets	**15,203,780**	**5,896,048**	**21,898,451**	**42,998,279**
Liabilities and equity:				
Customers' deposits	**18,238,807**	**15,018,688**	**134,455**	**33,391,950**
Due to banks and other financial institutions	**1,614,577**	**2,484,780**	**-**	**4,099,357**
Other liabilities	**1,586,315**	**-**	**41,840**	**1,628,155**
Accrued Zakat	**-**	**39,612**	**-**	**39,612**
Equity	**-**	**-**	**3,839,205**	**3,839,205**
Total liabilities and equity	**21,439,699**	**17,543,080**	**4,015,500**	**42,998,279**

44 LIQUIDITY RISK - continued

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2004				
Assets:				
Cash and balances with central banks	2,067,210	-	-	2,067,210
Balances and deposits with banks	189,029	36,730	-	225,759
International Murabahat, short term	4,905,383	2,597,188	-	7,502,571
Islamic financing and investing assets, net	3,473,777	3,434,256	10,579,080	17,487,113
Development properties	-	-	216,518	216,518
Investment properties, net	-	-	1,138,379	1,138,379
Investment in associates			73,566	73,566
Other investments, net	387,715	-	910,349	1,298,064
Receivables and other assets	474,431	-	3,295	477,726
Fixed assets, net	-	-	126,455	126,455
Total assets	**11,497,545**	**6,068,174**	**13,047,642**	**30,613,361**
Liabilities and equity:				
Customers' deposits	15,667,338	9,273,678	-	24,941,016
Due to banks and other financial institutions	1,182,806	210,372	-	1,393,178
Other liabilities	1,252,889	-	24,805	1,277,694
Accrued Zakat	-	14,877	-	14,877
Equity	-	-	2,986,596	2,986,596
Total liabilities and equity	**18,103,033**	**9,498,927**	**3,011,401**	**30,613,361**

45 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

The fair value of foreign exchange contracts is set out in note 43. The fair values of the Group's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2005.

46 COMPARATIVE AMOUNTS

The corresponding figures for 2004 have been reclassified in order to conform to the presentation of the current year. Such reclassifications do not affect previously reported net profit and shareholders' equity and have been made in light of changes in International Financial Reporting Standards and to improve the quality of information presented.