

*In the Name of Allah
The most Gracious and Merciful*

Financial Statements 2005



(Public Joint Stock Company)

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Board of Directors

Saeed Mohamed Rashid Al Sharid – Chairman

Ahmed Bin Hassan Mohd. Bin Al Sheikh – Deputy Chairman

Sulaiman Hamed Al Mazroui
Salah Abdulrahman Mohammed Bukhatir
Jamal Saeed Juma Bin Ghalaita
Mohamed Bin Ahmed Al Maktoum
Mahdi Abdulnabi Hussain Kazim

Fatwa & Sharia Supervisory Board

Prof. Dr. Hussein Hamid Hassan – Chairman
Prof. Dr. Ojeil Jassim AlNashmi
Prof. Dr. Ali Al-Qurra Daghi

Chief Executive Officer

Ebrahim Fayez Al Shamsi

Auditors

KPMG

Board of Directors' Report

For the year 2005

Respected Shareholders,

Peace and blessings be upon you..

The Board of Directors is pleased to present the annual report on the Bank's activities and results for the year 2005 which comes after a year filled with activities and achievements. Results, with the Grace of Almighty Allah, were

ahead of expectations and the extraordinary growth rates exceeded all estimates and the financial plan.

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

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

Financial performance:

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

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

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

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

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

Board of Directors' Report

For the year 2005

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

- AED 165 Million (98%) increase in cash and balances with banks.
- AED 2.2 Billion (104%) increase in financing and investing portfolio (including short term Murabaha and balances with EBI).

- AED 71 Million (97%) increase in prepayments and other assets (Emirates Real Estate Fund dividend income - AED 9.5 Million. Deferred sales commission on Vehicles Murabaha - AED 7.5 Million. Increase in acceptances - AED 33 Million, recognized on Balance Sheet under the revised IAS 39. Goods available for sale - AED 4 Million. Prepaid rent for Head Office and branches - AED 5 Million).

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

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

Recommendations:

The Board of Directors recommends the following:

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

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

Board of Directors

Fatwa & Sharia Supervisory Board's Report

For the year 2005

The Articles of Association of the Bank have entrusted the Fatwa and Sharia Supervisory Board with the task of preparing a detailed annual report on the activities of the Bank and its business for the financial year. The objective of the report is to determine the extent to which the Bank is complying with its Articles of Association and the principles of Sharia as well as the pronouncements of the Sharia Board.

First: Supervision and Guidance

- 1) The Sharia Board has supervised the Activities of the Bank during the year 2005, which is considered as the first full year of the bank after its conversion into an Islamic Bank on October 9th 2004 (the "Transformation Date"); in this respect, the Sharia Board has directed the various departments of the Bank to adhere to the principles of Sharia and the pronouncements of the Sharia Board relating to all activities and dealings of the Bank; and it has conducted a number of meetings with the staff in charge to insure the fulfillment of the goals of conversion of the Bank into the Islamic Banking System.
- 2) The Sharia Board has reviewed the Bank's books, records and documents, and it has collected the data and information necessary for the completion of the task of Sharia supervision and audit.
- 3) The Sharia Board has reviewed all the transactions and projects referred to it during the year, and it has approved the related contracts and documents, and it has replied to the related inquiries and issued the suitable resolutions and pronouncements.
- 4) The Sharia Board has developed new contracts and forms to meet up with the innovative needs of the Bank.
- 5) The Sharia Board declares that the various departments of the Bank have complied with and adopted the copies of contracts and documents approved by the Sharia Board.
- 6) The Sharia Board has examined the banking services offered by the Bank, and it declares that these services as well as the related fees, charges and commissions being charged by the Bank for these services do not violate the principles of Islamic Sharia.

Second: Pronouncements and Decisions

- 1) The Sharia Board has replied to the questions and queries it received from various departments of the Bank and it has issued in response appropriate resolutions and pronouncements.
- 2) While confirming that the responsibility for adherence to Sharia principles and implementing the Sharia Board's pronouncements in all activities of the Bank rests mainly with the Management of the Bank, the Sharia Board declares that, within the cases presented to it, the information received by it, the audits it has undertaken, and the related observations it has made, as well as the positive response of the various departments of the Bank in complying with these observations, the activities and the transactions of the Bank during the year 2005 violate neither the principles of Islamic Sharia nor the pronouncements issued by the Sharia Board, taking into account the rectifications made to address any observed violations.

Fatwa & Sharia Supervisory Board's Report

For the year 2005

Third: Financial Statements of the Bank

- 1) The management of the Bank prepared the financial statements for the full year ending on December 31st 2005. The balance sheet shows the rights and commitments of the shareholders as of the end of the year 2005. The Sharia Board has reviewed the financial statement in its meeting held on February 16th 2005, and it has endorsed these statements with regards to the rights and commitments of the shareholders for the said period.

- 2) The Sharia Board has verified the assets and liabilities of the Bank on the basis of the statements presented by the Management of the Bank, and it has reviewed the accounting policies adopted in preparing the financial statements; it has also reviewed the principles of profit distribution between the shareholders and the depositors on the one hand, and amongst the depositors on the other hand. The Sharia Board confirms that the accounting policies and the principles of profit distribution are Sharia compliant.
- 3) The Sharia Board is of the view that:
 - a- On the basis of the information provided by the Management of the Bank, the financial statements fairly represent the status of the Bank's assets and income as of the end of December 31st 2005.
 - b- The profit distribution between the depositors and the shareholders is in accordance with the same basis followed by the Bank since the transformation date.

Fourth: The Account of Zakat

- 1) The Sharia Board has reviewed the account of Zakat that the Bank should pay out on the shareholders funds retained with the Bank as per the rules and regulations followed by the Bank. The total due amount of Zakat due for the year 2005 is AED 5,635,751. The Sharia Board verified that the Zakat calculation is in line with the principles of Sharia and the pronouncements of the Sharia Board and the Bank's approved mechanism. As to the actual amount of Zakat due on the shareholders, the Sharia Board has prepared a letter addressed to the shareholders determining the amount of Zakat due per share, depending on the intention of the owners of the shares (i.e. whether the shares are acquired for trading purposes or for the annual returns the shares generate).
- 2) The Sharia Board has verified the Zakat pool Fund for the year 2005, as well as the amounts and channels of disbursement made through out the year, and the number of cases benefited from this fund.

Fatwa and Sharia Supervisory Board

Shares' Zakat

For the year 2005

Article (72-G) stipulates that: "The shareholders shall independently provide Zakat (Alms) for their money and the Company shall calculate for them the due Zakat per share and notify them thereof every year. As for the money held by the Company as reserves, retained earnings and others, on which Zakat is due, the Company shall pay their Zakat as decided by the Legal Opinion &

Sharia Control Board, and transfer such Zakat to the Zakat Fund stipulated in Article (75) of Chapter 10 in these Articles of Association”.

Shares’ Zakat should be calculated as per one of the following methods:

First Method

Zakat on shares purchased for trading purposes (to sell them when the market value rises):

Zakat pool per share = Share quoted value + Cash dividends per share for..
.. the year

Zakat per share = Zakat pool per share x 2.5775%

Net Zakat per share = Zakat per share – 0.8767 Fils (Zakat on reserves and
retained earnings per
share paid by the Bank)

Total shares’ Zakat = Number of shares x Net Zakat per share

** Note: Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the 11 days difference between the two calendars.*

Second Method

Zakat on shares purchased for acquisition (to benefit from the annual return):

Shares’ Zakat = Total shares’ dividends for the year x 10%



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REPORT OF THE AUDITORS’

TO THE SHAREHOLDERS OF EMIRATES ISLAMIC BANK PJSC

We have audited the accompanying balance sheet of Emirates Islamic Bank PJSC (“the Bank”) as of 31 December 2005 and the related statements of income, changes in equity and cash

flows for the year then ended.

Respective responsibilities of the Bank's Management and the Auditors

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

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

Other Matters

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

KPMG

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

Emirates Islamic Bank (PJSC)

INCOME STATEMENT

Year Ended 31 December 2005

			(Restated)
	Note	2005 AED'000	2004 AED'000
INCOME			
Income from financing and investing activities	4	89,655	2,089
Income from short term Murabaha, with Group Holding Company		34,990	6,415

Property related income		8,986	-
Commissions, fees and other income, net	5	55,391	25,552
Total income before net interest income		189,022	34,056
Interest income	6	-	39,932
Interest expense	6	-	(9,045)
NET INTEREST INCOME		-	30,887
TOTAL INCOME		189,022	64,943
EXPENSES			
General and administrative expenses	7	105,088	58,900
Provision for depreciation of investment properties		3,200	-
Recoveries net of impairment allowances	8	(6,575)	(16,523)
TOTAL EXPENSES		101,713	42,377
NET OPERATING INCOME		87,309	22,566
Depositors' share of profit	9	(44,229)	(2,996)
SHAREHOLDERS' PROFIT (NET INCOME)		43,080	19,570
Earnings per share (Dirham)	10	0.07	0.03

The attached notes 1 to 34 form part of these financial statements.

The auditors' report is set out on page 1.

Emirates Islamic Bank (PJSC)

BALANCE SHEET

At 31 December 2005

			(Restated)
	Note	2005 AED'000	2004 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	11	238,858	148,764
Due from banks and other financial institutions		95,088	19,845
Due from Group Holding Company	12	1,354,613	1,417,616
Financing receivables and investments	13	2,447,155	463,593
Loans and receivables	14	44,774	39,758
Other Investments	15	293,340	339

Investment properties	16	128,729	172,455
Prepayments and other assets	17	143,965	73,007
Property and equipment	18	21,955	10,267
TOTAL ASSETS		4,768,477	2,345,644
LIABILITIES			
Customers' deposits	19	3,596,981	1,234,517
Due to banks and other financial institutions	20	17,932	14,768
Due to Group Holding Company	12	-	198,066
Other liabilities	21	295,495	79,892
Zakat payable	22	5,704	2,080
TOTAL LIABILITIES		3,916,112	1,529,323
SHAREHOLDERS' EQUITY			
Share capital	23	650,000	500,000
Statutory reserve	24	111,233	106,925
General reserve	24	54,308	64,857
Retained earnings		36,824	144,539
TOTAL SHAREHOLDERS' EQUITY		852,365	816,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,768,477	2,345,644
COMMITMENTS & CONTINGENT LIABILITIES	25	938,132	2,355,164

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

Chairman

Director

Chief Executive Officer

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

Emirates Islamic Bank (PJSC)

STATEMENT OF CASH FLOWS

Year Ended 31 December 2005

		2005	(Restated)
	Note	AED'000	2004 AED'000
OPERATING ACTIVITIES			
Shareholders' profit (Net income for the year)		43,080	19,570
<i>Adjustments for:</i>			
Impairment allowances on loans and advances		2,932	2,625
Impairment allowances on financing receivables and investments		5,335	-
Gain on sale of investments		(19,730)	(3,524)
Gain on revaluation of investment funds		(6,587)	-
Gain on redemption of units in funds		(361)	-

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

The attached notes 1 to 34 form part of these financial statements.

The auditors' report is set out on page 1.

Emirates Islamic Bank (PJSC)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year Ended 31 December 2005

	Share Capital	Statutory reserve	General reserve	Retained earnings	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
As of 1 January 2004	500,000	104,968	62,900	155,963	823,831
Net income for the year	-	-	-	16,596	16,596
Add: restatement (note 3)	-	-	-	2,974	2,974
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Restated net income for the year	-	-	-	19,570	19,570
Dividends paid	-	-	-	(25,000)	(25,000)
Transfer to reserves	-	1,957	1,957	(3,914)	-
Zakat	-	-	-	(2,080)	(2,080)
Restated balances					
As of 31 December 2004	500,000	106,925	64,857	144,539	816,321
As of 1 January 2005	500,000	106,925	64,857	144,539	816,321
Net income for the year	-	-	-	43,080	43,080
Transfer to/from reserve (note 24)	-	4,308	(10,549)	6,241	-
Issue of bonus shares	150,000	-	-	(150,000)	-
Zakat	-	-	-	(5,636)	(5,636)
Directors' remuneration	-	-	-	(1,400)	(1,400)
As of 31 December 2005	650,000	111,233	54,308	36,824	852,365

In accordance with the Ministry of Economy & Commerce interpretation of Article (118) of Commercial Companies Law No (8) of 1984, Directors' remuneration has been treated as an appropriation from equity.

The attached notes 1 to 34 form part of these financial statements.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

1. ACTIVITIES

Emirates Islamic Bank formerly Middle East Bank (the Bank) was incorporated by a decree of His Highness The Ruler of Dubai as a conventional Bank with limited liability in the Emirate of Dubai in 1976. The Bank was reregistered as a Public Joint Stock Company in July 1995.

At an extraordinary general meeting held on 10th, March 2004 a resolution was passed to transform the Bank's activities to be in full compliance with the Islamic Sharia. The entire process was completed on October 9th, 2004 (the transformation date) when the Bank obtained UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates Bank International PJSC, Dubai (the Group Holding Company).

In addition to its head office in Dubai, the Bank operates through 11 branches in the UAE. The accompanying financial statements combine the activities of the Bank's head office and its branches.

The Bank provides full banking services, and a variety of products through Islamic financing and investing instruments.

As of 31 December 2005 the Bank employed 510 employees (2004: 284 employees).

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, Sharia rules and principles as approved by the Bank's Fatwa and Sharia Supervisory Board, and applicable requirements of the U.A.E Laws.

Accounting convention

The financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of financial assets carried at fair value through income statement.

The financial statements have been presented in UAE Dirham, rounded to the nearest thousand.

Islamic financing instruments

- **Murabaha:** An agreement whereby the Bank sells to a customer a commodity or a property 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 of the cost of the commodity and an agreed profit margin.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Islamic financing instruments *(continued)*

- **Financing Ijarah:** An agreement whereby the Bank (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent installments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement. Also, where the bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee.
- **Mudaraba:** An agreement between two parties; one of them provides the funds and is called Rub-UI-Mal and the other provides efforts and expertise and is called Mudarib and

he is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of Mudaraba fee. In case of normal loss; Rab-UI-Mal would bear the loss of his funds while Mudareb would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only Mudareb would bear the losses. The Bank may act as Mudareb when accepting funds from depositors and as Rub-UI-Mal when operating such funds on Mudaraba basis.

- **Istisnaa:** An agreement between the Bank and a customer whereby the Bank develops and sells a property to the customer according to agreed upon specifications. The Bank may develop the property on its own or through a subcontractor, and then hand it over to the customer on a pre agreed date and against fixed price.
- **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 guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Due from banks and other financial institutions

Represents the Bank's balances with correspondent banks, and are stated at cost less allowance for impairment, if any.

Financial instruments

(i) Classification

Loans and receivables: are loans and receivables granted by the Bank providing money to a debtor other than those granted for the intention of short term profit taking. Loans and receivables were originated by the Bank before the transformation date of the Bank's activities to be in full compliance with the Islamic Sharia. These are reported net of impairment allowance to reflect the estimated recoverable amounts. These products have been discontinued since the Bank transformed to an Islamic Bank.

Financial assets at fair value through income statement: Financial assets are classified under this category if acquired principally for the purpose of selling in the short term or so designated by management.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

(ii) Recognition

Financing receivables are recognized on the day the underlying asset is delivered to the counter party or in accordance with the contractual terms.

The Bank recognizes the assets at fair value through income statement on the date it commits to purchase the asset. From this date any change in gains and losses arising from the change in the fair value of the asset is recognized. These are derecognized and

corresponding receivable from the buyers are recognized as of the date the Bank commits to sell the asset.

The financial liabilities are recognized on the date the Bank becomes a party to contractual provisions of the instruments.

The financial assets are derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

(iii) Measurement

All financial instruments are recognized initially at cost including transactions cost.

All Financial Instruments and loans and receivables are measured at amortized cost less impairment losses if any. Amortized cost is calculated on the effective profit / interest rate method. Transaction cost is included in the carrying amount of the instruments and is amortized based on the effective profit / interest rate of the instrument.

Subsequent to initial measurement all assets at fair value through income statements are measured at fair value, except that an instrument that does not have quoted market price in an active market and whose fair value can not be measured is stated at cost, including transaction cost, less any impairment losses.

(iv) 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.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market related profit 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.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of the assets at fair value through income statement are recognized in the income statement.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

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

The recoverable amount of Islamic financial instruments and loans and receivables are measured at the present value of the expected future cash flows, discounted at the instrument's original effective profit/interest rate. Short term balances are not discounted.

Financing receivables and loans and receivables are presented net of allowances for impairment. Specific allowance are made against the carrying amount of financing receivables and loans and receivables that are identified as being impaired based on

regular reviews of outstanding balances to reduce these financing receivables and loans and receivables to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolio of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments or penalties. When a receivable or loan is known to be uncollectible, all the necessary legal procedures have been complete, and the final loss has been determined, the receivable is written off directly.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the income statement.

Investment properties

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

Property and equipment

Property and equipment are recorded at cost, less impairment allowance, if any. Depreciation is provided on a straight-line basis over estimated useful lives of all property and equipment, other than freehold land which is not depreciated.

The rates of depreciation are based upon the following estimated useful lives:

- Leasehold improvement 4 years
- Other assets 4 years

Revenue recognition

Murabaha

Where the profit is quantifiable and contractually determined at the commencement of the contract, profit is recognized as it accrues over the life of the contract.

Ijara

Income from Ijara is recognized on an accrual basis over the period of the contract.

Wakala

Estimated income from Wakala is recognized 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.

Dividend income is recognized when the right to receive it is declared.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Commissions and fees

Commission and fee income is recognized when the related services are rendered.

Forfeited income

Forfeited income is resulting from transactions deemed to be incompliant with Islamic Sharia, as per the Fatwa and Sharia Supervisory Board. The Bank's management has to set aside such income, separate it from the bank's income and disclose it in the financial statements. This income is directed towards local social activities.

Provisions

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

Employees' end of service benefits

The Bank provides end of service benefits to its expatriate employees in accordance with the U.A.E. labor law. The entitlement of these benefits is based upon the employees' basic salary and length of service, subject to a completion of a minimum service period. Costs of these benefits are accrued over the period of employment. Provision for employees' end of service benefits at the balance sheet date is included under "Other Liabilities".

With respect to its national employees, the Bank makes contributions to a pension fund established by the General Pension and Social Security Authority as a percentage of the employees' salaries.

The Bank's obligations are limited to these contributions, which are recognized in the statement of income.

Zakat

Zakat is computed as per the Bank's Articles of Association and is approved by the Bank's Fatwa and Sharia Supervisory Board on the following basis:

- Zakat on the general provision for financing and investing activities, if any, is deducted from Mudaraba common pool income for the year.
- Zakat on shareholders' equity (except paid up capital) is paid from the net profit of the year.
- Zakat is disbursed to Sharia channels according to the management instructions.
- Shareholders themselves are responsible to pay Zakat on their paid up capital.

Allocation of profit

Allocation of profit between depositors and shareholders is processed according to the Bank's standard procedures and is approved by the Bank's Fatwa and Sharia Supervisory Board.

Cash and cash equivalents

For the purpose of preparation of the statement of cash flows, cash equivalents are considered to be cash and balances with the U.A.E. Central bank, due from banks and Group Holding Company (including short-term Murabaha) less due to banks and Group Holding Company. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with residual maturities up to three months from the balance sheet date.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates 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 income statement.

Contingent liabilities

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

3. RESTATEMENT OF RETAINED EARNINGS

The net income for the year ended 31 December 2004 had been understated by AED 2,974,048 due to a mathematical error in the computation of deferred income of some transactions. Accordingly, the retained earnings as at 31 December 2004 have been restated.

4. INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2005 AED'000	2004 AED'000
Financing activities		
Commodities Murabaha	10,057	844
Vehicles Murabaha	11,994	33
Real Estate Murabaha	2,709	2
Syndication Murabaha	17,560	1,118
Ijara	22,546	92
	<u>64,866</u>	<u>2,089</u>
Investing Activities		
Sukuk	7,284	-
Funds	1,012	-
Dividend income	9,545	-
Gain on investments	6,948	-
	<u>24,789</u>	<u>-</u>
Total income from financing and investing activities	<u>89,655</u>	<u>2,089</u>

Total income from financing and investing activities is presented net of forfeited income of AED 15,000 (2004: Nil), (Note 2).

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

5. COMMISSIONS, FEES AND OTHER INCOME, NET

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

6. INTEREST INCOME AND EXPENSE

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

7. GENERAL AND ADMINISTRATIVE EXPENSES

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

8. RECOVERIES NET OF IMPAIRMENT ALLOWANCES

	2005 AED'000	2004 AED'000
Impairment allowance for loans and receivables	(2,932)	(2,625)
Impairment allowance for financing receivables and investments	(5,335)	-
Recoveries	14,842	19,148
	<u>6,575</u>	<u>16,523</u>

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

9. DEPOSITORS' SHARE OF PROFIT

The distribution of profit between depositors and shareholders is made, quarterly, in accordance with the method approved by the Bank's Fatwa and Sharia Supervisory Board effective from October 9th, 2004.

	2005 AED'000	2004 AED'000
Paid for the period ended 30 September 2005	22,738	-
Payable for the last quarter	18,847	2,996
Transferred to profit equalization reserve during the year (note 19)	2,644	-

Depositors' share of profit for the year	44,229	2,996
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10. EARNINGS PER SHARE

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

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

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

12. DUE FROM / TO GROUP HOLDING COMPANY

	2005 AED'000	(Restated) 2004 AED'000
<i>Due from Group Holding Company comprises:</i>		
Murabaha, short term	664,977	1,416,820
Deposits exchange (profit free), net	381,414	-
Other balances	308,222	796
	1,354,613	1,417,616
<i>Due to Group Holding Company comprises:</i>		
Current and other accounts	-	198,066

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

13. FINANCING RECEIVABLES AND INVESTMENTS

	2005 AED'000	2004 AED'000
Financing receivables comprise:		
Commodities Murabaha	364,786	101,201
Vehicles Murabaha	812,137	63,615
Syndication Murabaha	408,842	219,673
Real Estate Murabaha	110,916	-
Total Murabaha	1,696,681	384,489

Istisna	15,821	-
Ijara	603,582	129,456
Credit card receivables	37,468	-
Others	47,968	41,860
	<u>2,401,520</u>	<u>555,805</u>
Less: Deferred income	(195,459)	(30,557)
Allowance for impairment	(66,990)	(61,655)
	<u>2,139,071</u>	<u>463,593</u>
Investments comprise:		
Sukuk	271,734	-
Funds	36,350	-
	<u>308,084</u>	<u>-</u>
	<u>2,447,155</u>	<u>463,593</u>

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

Movement in Financing Receivables and Investments Allowance for Impairment

	2005	2004
	AED'000	AED'000
Balance at the beginning of the year	61,655	-
Transfer during the year	-	61,655
Allowance made during the year	5,335	-
	<u>66,990</u>	<u>61,655</u>

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

13. FINANCING RECEIVABLES AND INVESTMENTS (continued)

	2005	2004
	AED'000	AED'000
Financing receivables and investments by Economic Sector		
Agriculture and related activities	26,660	163,316
Manufacturing	130,244	49,547
Construction	617,273	49,753
Trade	604,668	61,658
Transportation and communication	3,905	6,001
Services and personal	1,306,080	211,040
Others	20,774	14,490

	2,709,604	555,805
Less: Deferred income	(195,459)	(30,557)
Allowance for impairment of loans	(66,990)	(61,655)
	2,447,155	463,593

14. LOANS AND RECEIVABLES

	2005 AED'000	2004 AED'000
Overdraft	64,766	77,173
Time and installment loans	44,561	35,232
Loans against trust receipts	10,508	14,675
Bills discounted	4,091	4,122
Others	1,196	2,478
	125,122	133,680
Less: Allowance for impairment	(80,348)	(93,922)
	44,774	39,758

Loans and Receivable by Economic Sector

Agriculture and related activities	2,081	1,194
Manufacturing	14,831	21,358
Construction	5,772	25,111
Trade	11,915	10,864
Transportation and communication	47,689	43,972
Services and personal	42,834	30,935
Others	-	246
	125,122	133,680
Less: Allowance for impairment	(80,348)	(93,922)
	44,774	39,758

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

14. LOANS AND RECEIVABLES (continued)

Movement in loans and receivables allowance for impairment

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

80,348

93,922

During 2004, the Bank transferred some of its corporate and retail loans at book value with associated allowance for impairment to the Holding Company.

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

15. OTHER INVESTMENTS

	2005 AED'000	2004 AED'000
Investments at cost	286,753	339
Gain on revaluation of investments	6,587	-
	<u>293,340</u>	<u>339</u>
Other Investments comprise:		
Quoted (also refer note 27)	293,001	-
Unquoted	339	339
	<u>293,340</u>	<u>339</u>

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

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

16. INVESTMENT PROPERTIES

	2005 AED'000	2004 AED'000
Land	91,829	48,726
Buildings	36,900	123,729
	<u>128,729</u>	<u>172,455</u>

The fair value of investment properties as of 31 December 2005 is AED 151,310,000 (2004: AED 172,455,000) as per valuation conducted by independent valuers. No

depreciation charge has been recognized for the year since the building was acquired in late December 2005. (2004: late December)

Movement in investment properties

	2005 AED'000	2004 AED'000
Balance as at the beginning of the year	172,455	-
Property purchased during the year	310,969	172,455
Property sold (Note 27)	(354,695)	-
Balance at the end of the year	<u>128,729</u>	<u>172,455</u>

17. PREPAYMENTS AND OTHER ASSETS

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

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

18. PROPERTY & EQUIPMENT

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

	Leasehold Improvement AED'000	Other assets AED'000	Total AED'000
Cost			
As of 1 January 2005	12,188	9,859	22,047
Additions	8,853	6,620	15,473
Disposals	(56)	(302)	(358)
	<u>20,985</u>	<u>16,177</u>	<u>37,162</u>
At 31 December 2005	<u>20,985</u>	<u>16,177</u>	<u>37,162</u>

Accumulated depreciation			
As of 1 January 2005	5,295	6,485	11,780
Charge for the year	2,089	1,649	3,738
Disposals	(12)	(299)	(311)
	<u>7,372</u>	<u>7,835</u>	<u>15,207</u>
Net book value:			
31 December 2005	<u>13,613</u>	<u>8,342</u>	<u>21,955</u>
31 December 2004	<u>6,893</u>	<u>3,374</u>	<u>10,267</u>

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

19. CUSTOMERS' DEPOSITS

	2005	2004
	AED'000	AED'000
Current accounts	1,423,280	496,120
Saving accounts	402,168	209,013
Investment deposits	1,720,591	506,424
Margins	48,366	22,960
Profit Equalization Reserve	2,576	-
	<u>3,596,981</u>	<u>1,234,517</u>
Movement in Profit Equalization Reserve		
Balance, beginning of year	-	-
Transfer from depositors' share of profit	2,644	-
Zakat payable	(68)	-
	<u>2,576</u>	<u>-</u>

Profit equalization reserve has been made in the year 2005 upon the approval of the Board of Directors and Fatwa and Sharia Supervisory Board. Zakat on this reserve is included under Zakat payable (note 22).

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

20. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2005	2004
	AED'000	AED'000
Current accounts	3,732	1,135
Clearing account with UAE Central Bank	14,200	-
Overdraft with correspondents	-	13,633
	<u>17,932</u>	<u>14,768</u>

21. OTHER LIABILITIES

	2005	2004
	AED'000	AED'000
Interest payable	-	52
Depositors' share of profit (Note 9)	18,847	2,996
Provision for employee benefits	22,901	19,176
Manager cheques	138,081	12,575
Trade payables	22,446	-
Contingent customer acceptances (note 25)	66,187	33,679
Board of Directors' remuneration	1,400	-
Contractors' retentions	2,872	-
Forfeited income	15	-
Others	22,746	11,414
	<u>295,495</u>	<u>79,892</u>

22. ZAKAT PAYABLE

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

The Zakat payable has been calculated for one full year (2004: October 9th till December 31st, 2004).

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

23. SHARE CAPITAL

At the Extraordinary General Meeting of the shareholders of the Bank held on 21 December 2005, the shareholders resolved to split the share to ten shares of AED 1 each, and to increase the authorized and paid-up capital to AED 650,000,000 by the issuing of bonus shares of AED 150,000,000 at par transferred from the retained earnings at the above mentioned date. Accordingly, the authorized and paid-up capital as at 31 December 2005 comprises of 650,000,000 shares of AED 1 each (2004: 50,000,000 of AED 10 each).

24. STATUTORY AND GENERAL RESERVES

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

A further 10% of shareholders' annual net income, if any, is transferred to a general reserve. Transfer to general reserve is suspended by an ordinary General Meeting, according to Board of Directors' recommendation, or if it reaches 10% of the Bank's paid-up capital. The Board of Directors proposes the use of the general reserve at its discretion. At the beginning of the year, the general reserve was in excess of the stated limit, the excess of AED 14,857,000 has been transferred to retained earnings. According to the resolution of the Extraordinary General Meeting mentioned in note 23, the Bank resumed the transfer to the general reserve.

25. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

Under IAS 39 (revised) acceptances are recognized on balance sheet (notes 17 & 21). Accordingly there is no off balance sheet commitment for acceptances.

Included in letters of guarantee for 2004 above, a guarantee amounted to AED 1,836,500,000 for Emirates Bank International (Group Holding Company) in favour of UAE Ministry of Economy. This guarantee was canceled in 2005.

At any time the Bank has outstanding commitments to extend credit. These commitments take form of approved financing facilities. Outstanding financing facilities have a commitment period that does not extend beyond one year. The contractual amount of commitments to extend credit and financial guarantees are set out above. These commitments and contingent liabilities have off balance sheet credit risk. Many of the commitments and contingent liabilities will expire without being advanced in whole or in part. Therefore the above amounts do not represent future cash flows. The Bank has capital commitments amounting to AED 4,490,762 as at 31 December 2005 (2004-Nil).

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

26. CASH AND CASH EQUIVALENTS

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

27. Investment in Emirates Real Estate Fund

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

28. RELATED PARTY TRANSACTIONS

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

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

29. SEGMENT REPORTING

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

Corporate

Within this business segment the Bank provides to corporate customers a range of products and services and accepts their deposits. This segment includes the investment properties, Syndications, Sukuk and Funds.

Retail

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

Treasury

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

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

29. SEGMENT REPORTING (continued)

	Corporate (Restated)		Retail (Restated)		Treasury (Restated)		Total (Restated)	
	2005 AED'000	2004 AED'000	2005 AED'000	2004 AED'000	2005 AED'000	2004 AED'000	2005 AED'000	2004 AED'000
Income Statement								
Segment income	129,968	32,100	23,818	23,723	35,236	9,120	189,022	64,943
Treasury income	(13,513)	-	24,379	-	(10,866)	-	-	-
Total income	116,455	32,100	48,197	23,723	24,370	9,120	189,022	64,943
General and administrative expenses	(27,806)	(6,711)	(77,282)	(52,154)	-	(35)	(105,088)	(58,900)
Depreciation of investment Properties	(3,200)	-	-	-	-	-	(3,200)	-
Total expenses	(31,006)	(6,711)	(77,282)	(52,154)	-	(35)	(108,288)	(58,900)
Net operating income	85,449	25,389	(29,085)	(28,431)	24,370	9,085	80,734	6,043
Recoveries net of impairment allowance	5,214	1,722	1,361	14,801	-	-	6,575	16,523
	90,663	27,111	(27,724)	(13,630)	24,370	9,085	87,309	22,566
Depositors' share of profit for the period	(21,361)	(1052)	(22,868)	(1944)	-	-	(44,229)	(2,996)
Shareholders' of profit (Net Income)	69,302	26,059	(50,592)	(15,574)	24,370	9,085	43,080	19,570
Balance Sheet								
Assets								
Segment assets	2,446,943	599,068	775,235	99,042	1,046,391	1,583,489	4,268,569	2,281,599
Unallocated assets	-	-	-	-	-	-	499,908	64,045
Total assets	2,446,943	599,068	775,235	99,042	1,046,391	1,583,489	4,768,477	2,345,644
Liabilities								
Segment liabilities	1,719,776	433,757	1,918,756	800,760	-	212,835	3,638,532	1,447,352
Unallocated liabilities	-	-	-	-	-	-	1,129,945	898,292
Total liabilities	1,719,776	433,757	1,918,756	800,760	-	212,835	4,768,477	2,345,644

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

30. RISK MANAGEMENT

a) Credit risk and concentration of risk

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

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

The Bank seeks to manage its credit risk exposure through diversification of financing and investing to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. The Bank also obtains security when appropriate. For the composition of financing receivables and loans and receivables, refer to note 13 and 14 respectively.

Details of the geographic distribution of risk assets and liabilities are set out in note 33.

b) Market risk

The Bank is not exposed to market risk in terms of profit margins as all deposit contracts are on the basis of Mudaraba. The Bank, who is the Mudarib, has no commitment to the depositors in terms of profit. In case of loss the depositor, who is Rab Al Mal, bears the loss and the Mudarib loses his efforts. (refer to definitions- note 2).

c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is not exposed to currency risks resulting from foreign currencies transactions undertaken by the Bank for its customers. Customers bear all currency risks as per the contractual terms. The Bank does not have any material assets / liabilities in foreign currencies other than US Dollar.

The Bank neither deals in derivatives such as forward foreign exchange contracts and foreign currency swaps nor undertakes any hedging transactions as this is considered to be incompliant with Islamic Sharia.

d) Liquidity risk

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

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of funds.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

30. RISK MANAGEMENT *(continued)*

d) Liquidity risk *(continued)*

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Details of maturity profile of the assets and liabilities of the Bank are set out in note 34.

31. FAIR VALUE

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

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

a) Due from banks

Due from banks includes current accounts with these banks.

b) Due from Group Holding Company

Due from Group Holding Company comprises the Bank's Murabaha, deposit exchange and other balances. Such Murabaha contracts are short term and priced with reference to the market rates at the contractual date. The Murabaha is expected to be realized on maturity.

c) Financing receivables

Financing receivables are net of allowances for impairment.

Ijarah facilities are given at a variable rate determined, generally, with reference to the market rates besides the usual parameters of tenor and risk evaluation.

The average profit rate on financing receivables at the year end is in line with the rate charged for such financing in the local banking market.

d) Loans and receivables

Loans and receivables are net of allowances for impairment.

Loans and receivables were given, prior to transformation date, at variable interest rates. Such rates were in line with the local banking market at the granting dates, and based on the usual parameters of tenor and risk evaluation.

e) Other investments

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

f) Investment properties

Investment properties are stated at cost. The building was acquired in late December 2005. The fair value of investment properties is disclosed in not 16.

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

31. FAIR VALUE *(continued)*

g) Customer deposits

A significant portion of customer deposits comprise deposits with an original maturity up to one year. A significant portion of these deposits has been maintained with the Bank for a number of years on a roll over basis.

Customer deposits primarily comprising profit bearing saving and fixed deposit accounts, paid on quarterly basis, and non-profit bearing current accounts, repayable on demand.

h) Due to banks

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

i) Other assets and liabilities

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

32. COMPARATIVE FIGURES

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

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NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

33. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

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

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

33. GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES *(continued)*

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

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

34. MATURITY PROFILE OF ASSETS AND LIABILITIES

2005	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
ASSETS:						
Cash and deposits with UAE Central Bank	238,858	-	-	-	-	238,858
Due from banks and other financial institutions	95,088	-	-	-	-	95,088
Due from Group Holding Company	1,195,678	158,935	-	-	-	1,354,613
Financing receivables and investments	314,006	442,662	795,777	576,103	318,607	2,447,155
Loans and receivables	32,240	-	-	-	12,534	44,774
Other investments	-	293,001	-	-	339	293,340
Investment properties	-	128,729	-	-	-	128,729
Prepayment and other assets	143,965	-	-	-	-	143,965
Property and equipment	-	-	-	21,955	-	21,955
TOTAL ASSETS	2,019,835	1,023,327	795,777	598,058	331,480	4,768,477
LIABILITIES:						
Customer deposits	1,028,412	1,330,426	1,238,143	-	-	3,596,981
Due to banks and other financial institutions	17,932	-	-	-	-	17,932
Due to Group Holding Company	-	-	-	-	-	-
Other liabilities	295,495	-	-	-	-	295,495
Zakat payable	5,704	-	-	-	-	5,704
Shareholders' Equity	-	36,824	-	-	815,541	852,365
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,347,543	1,367,250	1,238,143	-	815,541	4,768,477
Liquidity gap	<u>672,292</u>	<u>(343,923)</u>	<u>(442,366)</u>	<u>598,058</u>	<u>(484,061)</u>	
Cumulative Liquidity gap	<u>672,292</u>	<u>328,369</u>	<u>(113,997)</u>	<u>484,061</u>	-	

Emirates Islamic Bank (PJSC)

NOTES TO THE FINANCIAL STATEMENTS

As of 31 December 2005

34. MATURITY PROFILE OF ASSETS AND LIABILITIES *(continued)*

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000	Total AED'000
2004						
ASSETS:						
Cash and balances with UAE Central Bank	148,764	-	-	-	-	148,764
Due from banks and other financial institutions	19,845	-	-	-	-	19,845
Due from Group Holding Company	1,417,616	-	-	-	-	1,417,616
Financing receivables and investments	139,673	149,580	99,986	62,269	12,085	463,593
Loans and receivables	17,177	325	1,830	20,426	-	39,758
Other investments	-	-	-	-	339	339
Investment properties	-	-	172,455	-	-	172,455
Prepayments and other assets	73,007	-	-	-	-	73,007
Property and equipment	-	-	-	10,267	-	10,267
TOTAL ASSETS	<u>1,816,082</u>	<u>149,905</u>	<u>274,271</u>	<u>92,962</u>	<u>12,424</u>	<u>2,345,644</u>
LIABILITIES:						
Customers deposits	728,751	505,766	-	-	-	1,234,517
Due to banks and other financial institutions	14,768	-	-	-	-	14,768
Due to Group Holding Company	198,066	-	-	-	-	198,066
Other liabilities	79,892	-	-	-	-	79,892
Zakat payable	2,080	-	-	-	-	2,080
Shareholders' Equity	144,539	-	-	-	671,782	816,321
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>1,168,096</u>	<u>505,766</u>	<u>-</u>	<u>-</u>	<u>671,782</u>	<u>2,345,644</u>
Liquidity gap	<u>647,986</u>	<u>(355,861)</u>	<u>274,271</u>	<u>92,96</u>	<u>(659,358)</u>	
Cumulative Liquidity gap	<u>647,986</u>	<u>292,152</u>	<u>566,396</u>	<u>659358</u>	<u>-</u>	

