



ANNUAL REPORT 2005



Article 11 of the DIFC Regulatory Law (DIFC Law No 1 of 2004) requires the Dubai Financial Services Authority (DFSA) to provide the President, His Highness Sheikh Mohammed bin Rashid Al Maktoum, with a written report on the exercise of its powers, performance of its functions and financial activities. The report is to be prepared and provided as soon as reasonably practical in each financial year; and to relate to the previous financial year. This is the second such report, relating to the financial year ending 31 December 2005.

Log on to www.dfsa.ae for more information about the DFSA.



The DFSA is the integrated regulator of all financial and ancillary services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free zone in Dubai, one of the United Arab Emirates. The DFSA is created by statute and is an independent entity within the DIFC.

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KEY MILESTONES IN 2005

First Quarter 2005

- DFSA undertakes the first risk assessments of regulated firms.

February 2005

- DFSA signs its first international Memorandum of Understanding (MoU).

April 2005

- DFSA becomes an associate member of International Organization of Securities Commissions (IOSCO).
- DFSA moves into The Gate Building.

May 2005

- DFSA sets the stage for the launch of Dubai International Financial Exchange (DIFX) by issuing:
 - Offered Securities Rules.
 - Authorised Market Institutions Rules.
 - Recognition Rules.

July 2005

- DFSA issues Price Stabilisation Rules.

September 2005

- DFSA authorizes DIFX to open for business.
- DFSA issues Takeover Rules.

October 2005

- DFSA Releases The Collective Investment Law for consultation.

November 2005

- DIFC Trust Law is Issued.

December 2005

- DFSA is the first regulatory body in the Middle East to host its integrated Rulebook on its online Complanet Platform.
- DFSA authorised 29 firms and registered 12 firms as Ancillary Service Providers (ASPs) during 2005.

OBJECTIVES

The DFSA operates under objectives that are set out in the Regulatory Law. They are reproduced here in full.

In performing its functions and exercising its powers, the DFSA shall pursue the following objectives:

- a. to foster and maintain fairness, transparency and efficiency in the financial services industry (namely, the financial services and related activities carried on) in the DIFC;
- b. to foster and maintain confidence in the financial services industry in the DIFC;
- c. to foster and maintain the financial stability of the financial services industry in the DIFC, including the reduction of systemic risk;
- d. to prevent, detect and restrain conduct that causes or may cause damage to the reputation of the DIFC or the financial services industry in the DIFC, through appropriate means including the imposition of sanctions;
- e. to protect direct and indirect users and prospective users of the financial services industry in the DIFC;
- f. to promote public understanding of the regulation of the financial services industry in the DIFC; and
- g. to pursue any other objectives as the Ruler may from time to time set under DIFC Law.

STATEMENT BY THE CHAIRMAN DR HABIB AL MULLA



It gives me great pleasure to present the second Annual Report of the DFSA.

This has been the first full year in which the DIFC has been open for business, and it is already clear that the vision of the DIFC's President, His Highness Sheikh Mohammed bin Rashid Al Maktoum is well on its way to being realised. That vision is to create a world class financial centre in the Middle East, which will help to mobilise the wealth of a large region of the world to generate prosperity for its people which will contribute significantly to the wider world economy. It is also to create prosperity for Dubai and the UAE by establishing a key area of strength outside the hydrocarbons sector. This is not a vision that can be realised overnight. The major financial centres of the world took decades, and even centuries, to build. The DIFC has developed unprecedentedly fast, but it is by our success in the longer term that we shall stand to be judged.

We in the DFSA have therefore continued to lay the foundations for long term success. The highlight of the year was perhaps the opening for business of the DIFX, following authorisation by the DFSA. This is important not only for itself but as one component of a complete wholesale financial services infrastructure embracing banking, insurance and securities markets, supporting services such as lawyers and accountants, training, education, information providers and even the coffee shops in which so much informal business is done. Not all of this is the direct concern of a financial services regulator but we do have a responsibility to look to the future and to ensure that our regime is capable of covering the full range of financial markets and services. Some very important elements of our regime were put into place in 2005, with the enactment of key parts of our securities regime and of trust legislation. The most important remaining component will come into place in 2006, with our collective investment regime. But the process of development will continue, as it does in all major markets.

During the year we were delighted to welcome as a new Board member The Earl of Home who, since 1966, has had a distinguished career in the banking and investment services industry in the UK and is currently Chairman of Coutts & Co. This is part of a continuing process of strengthening our Board to bring together both regulatory and industry experience across a wide range of both sectors and geography.

We are very keen that the high standards we expect of regulated firms should be reflected in our own governance. In 2005 the Board approved the DFSA's constitutional provisions, as required under the Regulatory Law. It also approved new terms of reference for Board Committees. Like regulatory and other boards around the world, the DFSA Board has been sharpening its focus on risk and, just after the year end, its Finance and Audit Committee was reconstituted as an Audit and Risk Committee.

Another highlight of the year was the appointment of our new Chief Executive, David Knott. David is a regulator of great international repute, as a former Chairman of the Australian Securities and Investments Commission, and also Chairman of the Technical Committee of IOSCO. We are proud that he committed to joining us. We are also enormously grateful to his acting predecessor, David King, who led the DFSA through a challenging time and passed to his successor an organisation of which he, and we, can be proud.

The creation of the DIFC, with its unique legal framework, was an important act and one that is already bearing fruit. I look forward to further exciting and fruitful developments during 2006.

A handwritten signature in black ink, consisting of a long horizontal line with a vertical stroke intersecting it near the left end, and a short horizontal stroke extending to the right from the top of the vertical stroke.

Dr. Habib Al Mulla
Chairman

STATEMENT BY THE CHIEF EXECUTIVE DAVID KNOTT



This is my first report as Chief Executive of the DFSA and I wish to start by registering thanks to my predecessor David King for his considerable assistance to me when taking over the reins.

In this report I want to focus on two key items that have dominated the DFSA agenda during 2005: capacity building and risk based regulation.

Building capacity

Our program for building capacity and preparing for future growth and development within the DIFC has remained a key priority during 2005. Some of that work has been externally focused, involving additional laws and the licensing of key institutions. Other initiatives have been internally directed towards ensuring that the DFSA has the professional and operating capacity to keep pace with the DIFC's growth path.

The authorisation and opening of the DIFX was undoubtedly the most important single addition to the financial infrastructure of the Centre. The licensing of DIFX required huge effort by DFSA staff, working closely with DIFX, to ensure that their rules and systems reached the standard expected of an international exchange providing trading, clearing and settlement functions. In future years the operations of DIFX (and other authorised exchanges such as Dubai Mercantile Exchange which is expected to open in late 2006) will be central to DIFC's success as an international capital markets centre.

Another initiative that will have important long term consequences for the success of the DIFC is the creation of our regime for collective investment schemes – or funds. This work began in 2005 and is expected to become operational in April 2006. Together with our new Trust Services regime, the Collective Investment Fund laws will put in place the last major elements of the Centre's financial services infrastructure.

The building of internal capacity would be incomplete without agreements to reflect cross-border regulatory co-operation and information exchange. During the year, we signed MoUs with 6 other regulators and have since concluded 3 more. More importantly we have become associate members of IOSCO, one of the most important international standards-setting bodies. We are already an active member of that organisation, adding to our existing membership of the International Association of Insurance Supervisors (IAIS) and the Islamic Financial Services Board (IFSB).

Finally in the context of capacity building, I should say something of DFSA's own infrastructure which has undergone dramatic changes. Over the course of the year we increased our staff numbers from 38 to 80. I am delighted that we have attracted such experienced and qualified regulators from international capital markets. This rapid growth has made it important to ensure that our operating structure will support a significantly larger organisation. We have therefore strengthened our operations team, installed new human resource and finance software packages, and begun to define a range of new policies and processes in areas from business planning to human

resources. One important element of this has been the review of our salary and benefits structure to ensure that we remain fully competitive when benchmarked against the international regulatory market. I am pleased to say that our staff all accepted the new contracts they were offered during 2005 as part of this review. Our move to permanent premises in The Gate in April will remain an important milestone in the agency's history.

Risk Based Regulation

As our regulatory regime and processes have been tested in practice this year, and as we have benchmarked ourselves against international standards, we have inevitably found opportunities for improvement. Our staff have embraced these enthusiastically, and some have already been implemented. The completion of the collective investment project will free the resources necessary to make other improvements to our regime in 2006. At the same time, we have begun the re-engineering of our regulatory processes, with the aim of removing unnecessary work, speeding up the processes and, above all, enabling us to focus more clearly on risk.

Our aim as a regulator is to be truly risk-based, not rule or process based. The assessment of risk needs to drive everything we do, from the rules we make and our own resource allocation, to our dealings with each individual firm. It is easy to speak the language of risk. It is much more difficult to make this so much a part of our culture that it becomes the natural way of thinking of everyone in the DFSA.

I expect to see this philosophy reflected in on-going changes to our rules and regulations beginning with opportunities to streamline the existing requirements for Ancillary Service Provider (ASP) regulation; reducing the compliance requirements for licensed representatives; and limiting the post-listing sponsorship requirements for listed companies. All of these changes will reduce compliance process and costs without generating unacceptable risk. The DFSA will seek additional opportunities of this kind in consultation with industry throughout 2006 and beyond.

It will be obvious that with so much achieved during 2005 we owe a great deal of thanks to the executive and staff of DFSA. I thank every one of them for their enormous contribution to this important work. I look forward to their continued commitment as we move in 2006 from the final stages of capacity building into a fully operational financial services supervisor.



David Knott
Chief Executive



PART ONE - WHO WE ARE

The DFSA is the independent regulator of financial and ancillary services conducted in or from the DIFC.

The DIFC is a purpose-built financial free zone in the United Arab Emirates. It has been established as part of the goal to position Dubai as a recognised hub for institutional finance, and as the regional gateway for capital and investment in the Middle East.

The DFSA licences, authorises, registers and recognises businesses and individuals who wish to conduct financial and ancillary services in or from the Centre. It regulates and supervises their activities and will enforce the law where necessary.

DIFC Organisations

In addition to the DFSA, there are several key organisations in the DIFC which enable it to function as a self contained financial services centre based on international standards .

DIFC Authority (DIFCA)

The commercial arm of the DIFC, dedicated to helping businesses set up in the Centre. The DIFCA also administers a number of DIFC laws of general application.

Dubai International Financial Exchange (DIFX)

A subsidiary of the DIFCA, charged with establishing a liquid and transparent capital market in the DIFC. It trades equities, debt instruments and derivatives.

DIFC Registrar of Companies (ROC)

The body responsible for incorporating or registering all the companies that will operate within the DIFC.

DIFC Court

An independent Court, with unlimited civil and commercial jurisdiction, for the resolution of various matters arising from within the DIFC. The DIFC Court is modeled on a superior court of a common law jurisdiction.

THE BOARD OF DIRECTORS OF THE DFSA

The members of the Board are:

- Dr Habib Al Mulla
- David Knott
- The Hon Apurv Bagri
- Michael Blair QC
- Robert L Clarke
- Lord Currie of Marylebone
- Saeb Eigner
- The Earl of Home
- Robert Owen
- Abdullah M Saleh
- Dr J Andrew Spindler
- Georg Wittich



Dr Habib Al Mulla (Chairman) is the Managing Partner of Habib Al Mulla & Company, a prominent legal firm based in Dubai. He has been a Member of the UAE Federal National Council since 2002 and Director of the Institute of Advanced Legal and Judicial Studies since 2000. He is Vice Chairman of the Board of Trustees of Dubai International Arbitration Centre and a former Chairman of the UAE Jurists Association. He is a member of the Lawyers and Auditors Advisory Board of the Department of Economic Development; Economic Treaties and E-Commerce Committee of the Dubai Chamber of Commerce & Industry; Panel of Experts of the Broadcasting and Publications Standards Tribunal of TECOM; Board of Trustees of e-TQM college; Advisory Board of the Business School, the American University in Dubai; China International Economic & Trade Arbitration Commission; Dubai Chamber of Commerce & Industry and Abu Dhabi Centre for Commercial Conciliation & Arbitration; London Court of International Arbitration, Korean Commercial Arbitration Board, American Arbitration Association and International Bar Association. He was a founding member of the Arab Law Firms Association, Arab Licensing and Technology Transfer Society. Dr Al Mulla has an LLB from UAE University, an LLM from Harvard Law School and PhD from Cambridge University. He is also a Fellow of the Chartered Institute of Arbitrators.



David Knott was appointed Chief Executive of the DFSA on 1 June 2005. Mr Knott joined DFSA from Australia where he has held a number of senior regulatory positions. He served as Chairman of the national securities and companies regulator (ASIC) for a 3 year term expiring in December 2003. Previous roles in prudential supervision included CEO of the building societies and credit unions regulator (AFIC) and COO of the national banking, insurance and superannuation regulator (APRA). He also served as CEO of the Government-owned funds manager (CFM) and oversaw its privatisation. He was a Board member of the Australian Crime Commission, which has national responsibility for investigating organised crime. During his Chairmanship of ASIC, Mr Knott also Chaired the Technical Committee of IOSCO and represented it on the Financial Stability Forum. In his earlier career Mr Knott held a number of senior roles in law and investment banking.



The Hon Apurv Bagri is the Managing Director of the Metdist Group of companies. He is a past Chairman of the International Wrought Copper Council which represents the global copper fabricating industry, a member of the South Asia Committee of IFSL (formerly British Invisibles) and a member of the Board of the Indo-British Partnership. He is a Governor of London Business School and Chairman of its Asia Board and a member of the Governing Council of the City University, London. He is also a member of the Corporation, University College School; a member of the Advisory and Management Boards of the Royal Parks; a trustee of the Royal Parks Foundation; a commissioner of the Crown Estate Paving Commission; and a trustee of Asia House. He is a member of the NSPCC Stop Organised Abuse Board. He is the Chairman of TiE Inc, a global non-profit organisation that promotes entrepreneurship and wealth creation. Mr Bagri is an honours graduate in Business Administration from the Cass Business School in London. In March 2006 he was awarded the Honorary Degree of Doctor of Science from City University London.



Michael Blair QC specialises in financial services law and practice, having joined his Chambers in Gray's Inn, London in 2000. For 13 years before that he held successive senior positions in regulation in the City of London, latterly as General Counsel to the Board of the Financial Services Authority. From 2000 to 2002 he was the Chairman of the three recognised self-regulating organisations for the UK financial services industry, IMRO, PIA and SFA. He served on the Bar Council for 10 years, including four years as Treasurer from 1994 to 1998. He is a Member of the Competition Appeal Tribunal and the President of the Guernsey Financial Services Tribunal. He was given the award of Queen's Counsel (honoris causa) in 1996 and is the author or editor of a number of leading textbooks on UK financial services law.



Robert L Clarke has extensive experience with banking laws and regulations and bank supervision, both in the United States and internationally. Mr Clarke founded the Financial Services Section at Bracewell & Giuliani, LLP in 1973. He was appointed by President Ronald Reagan as US Comptroller of the Currency and at the end of his first term was reappointed by President George H W Bush. He served as Comptroller from 1985 to 1992 and during his tenure the agency supervised about 5,000 nationally chartered commercial banks. In March 1992 he rejoined Bracewell & Giuliani, LLP as Senior Partner and head of its financial services practice. Mr Clarke has served as a consultant to the World Bank and as Senior Advisor to the President of the National Bank of Poland, as well as advisor to a number of countries on their bank supervisory operations. Mr Clarke has an LLB from Harvard Law School and a Bachelor of Economics from Rice University.



Lord Currie of Marylebone has wide ranging experience in financial services, public administration and the education sector. In addition to serving on the Board of the DFSA, he is Chairman of Ofcom, the new converged UK regulator for electronic communications, and also Dean of City University's Cass Business School in the City of London. He was previously Deputy Dean at London Business School and a non-executive director of the Abbey National, as well as serving on the Board of Ofgem, the UK energy regulator, and a variety of other Government bodies. His academic research is in the area of regulation. In his earlier career he worked in financial services, and he has extensive consulting experience at board level with major financial institutions.



Saeb Eigner is the founder and CEO of Lonworld, a private finance, property and investment group. He is a Governor of London Business School, Chairman of its Alumni Board, Founding and Serving Chairman of its Middle East Regional Advisory Board. Formerly, a Senior Manager at ANZ Grindlays Bank plc in London, heading the Middle East and Indian Sub-Continent division of the Private Bank. He is a member of the Chartered Institute of Bankers and holds a Masters Degree in Business Administration and a Masters Degree in Management from London Business School. He is the co-author of the book "Sand to Silicon".



The Earl of Home was appointed a Director of the DFSA on 23 February 2005. He has been Chairman of Coutts & Co since 1 June 1999 and became Chairman of Coutts Bank (Switzerland) Ltd on 8 March 2000. He has wide experience of the banking sector and, having joined Morgan Grenfell in 1966, was appointed Director of Morgan Grenfell & Co Ltd (now Deutsche Securities Ltd) in 1972. He assumed responsibility for the international division of the bank in 1983. He was then appointed to a number of other international positions at Morgan Grenfell, becoming a Director of Morgan Grenfell Group Plc in 1996 and Chairman of Deutsche Morgan Grenfell Group Plc in 1999. Lord Home has held a number of non executive and public positions including Director of the Agricultural Mortgage Corporation Plc between 1980 and 1993, Chairman of Man Ltd, President of the British Malaysian Society (appointed in 2001) and Chairman of the Committee for Middle East Trade (retiring in 1992). He is an active member of the House of Lords and was a front bench spokesman on Trade, Industry and Finance until 1998. Lord Home was educated at Oxford University.



Robert Owen has wide-ranging regulatory experience, with particular exposure to the Asia Pacific region. He established the Securities & Futures Commission (SFC) in Hong Kong and was appointed its Executive Chairman in 1989. Prior to this Mr Owen was Director; Investment Banking, Lloyds Bank Group and Chairman and Chief Executive, Lloyds Merchant Bank. Earlier, he was a Director of Morgan Grenfell and Co and served in the UK Treasury and Foreign Office. Since leaving the SFC, Mr Owen has been Deputy Chairman of Nomura Asia Holdings Ltd and Senior Adviser to Nomura International (Hong Kong) Ltd.; Member of the Council and Regulatory Board of Lloyd's of London; Chairman of Crosby Ltd; Chairman of Techpacific Capital Ltd, Chairman of the International Securities Consultancy Ltd. and Director of Sunday Communications Ltd, European Capital Co Ltd and various other companies and investment funds. He is also Chairman of IB Daiwa Ltd (a company listed on the JASDAQ market in Tokyo) and a Director of Singapore Exchange Ltd and of Citibank (Hong Kong) Ltd. Mr Owen was educated at Oxford University.



Abdullah M Saleh is the Chairman of the National Bank of Dubai, having been one of its founders in 1963, and its Managing Director from 1982 until his retirement in January 2004. Mr Saleh is a former adviser on financial matters to the Late Ruler of Dubai, HH Sheikh Rashid Bin Said Al Maktoum. Mr Saleh served as an Arbitrator on the Paris-based High Board of the Euro-Arab Arbitration Centre, from 1988 to 2000. He is a Board member of the Dubai Chamber of Commerce and Industry (DCCI), and a member of the DCCI Arbitration Committee. He has been a member of the Board of Qatar Fuel Additives Company (QAFAC) since 1990 and has been Chairman of International Octane Limited (IOL) also since 1990. In 1979 he became a founder member of the Board of Dubai Cable Company (DUCAB) and served as a Chairman until 2001 - he continues to serve as a member of the Board of Directors representing the Government of Dubai. He is a Director and major shareholder of Dubai Transport Company LLC (DUTCO) the holding company of the Dutco Group of Companies. He has been Chairman of MARSH-INSCO (insurance brokers) since 1976. He was educated in Sharjah and London, and attended the Institute of Bankers after completing his academic studies.



Dr J Andrew Spindler is the President and CEO of the Financial Services Volunteer Corps (FSVC), a not-for-profit organisation based in New York City whose mission is to help build sound banking and financial systems in transition and developing countries. Prior to his appointment in 1993 Dr Spindler served as a Senior Vice President at the Federal Reserve Bank of New York, where he headed the Banking Studies and Analysis Function and Payments System Studies staff. While at the New York Fed, he helped develop the risk-based capital framework that has been adopted by bank supervisory authorities in most of the world's financial centres. He also served on the Basle Committee on Banking Supervision. Prior to joining the New York Fed as a Vice President in 1985, Dr Spindler served as a fellow at the Brookings Institution and held several international lending and strategic planning positions at the Continental Illinois Bank. Dr Spindler has a PhD and MPA from Princeton University's Woodrow Wilson School of Public and International Affairs, and a Bachelor's Degree in International Politics from Harvard College.



Georg Wittich has extensive experience of the financial markets and regulatory issues from a European perspective. He has held the position of President of the Bundesaufsichtsamt für den Wertpapierhandel (Federal Securities Supervisory Office) in Frankfurt (1994 to 2002) and Chairman of the Forum of European Securities Commissions (1998 to 2002). In IOSCO, Mr Wittich was Chairman of the Internet Project Team. Mr Wittich is a member of the International Advisory Council of the China Securities Regulatory Commission. Prior to this Mr Wittich held various senior posts in the Federal Ministry of Finance in Germany in the area of international finance and securities markets, and he was Financial Counsellor at the German Embassy in Tokyo (1983 to 1987). Mr Wittich graduated with law degrees from the Universities of Kiel and Hamburg, and undertook additional studies at the Ecole Nationale d'Administration in Paris.

GOVERNANCE AND ETHICS

The DFSA is supervised by a Board of Directors and managed by an Executive. The Regulatory Law provides that the powers and functions of the Board are to:

- ensure that the DFSA exercises its statutory powers and performs its statutory functions in accordance with its objectives;
- make policies relating to the regulation of financial services and related activities;
- make provision for the consideration of, adjudication on and the application of penalties in relation to disciplinary and other matters;
- review the performance of the Chief Executive;
- give the Chief Executive directions;
- arrange for the DFSA to enter into co-operation arrangements with other regulators;
- review draft laws and recommend them to the President;
- review and make Rules;
- review and issue standards and codes of practice; and
- make submissions to the President in relation to legislative matters outside the scope of its own legislative powers.

In exercising its general oversight of the DFSA's operations, the Board's role includes:

- making strategic decisions affecting the future operation of the DFSA;
- setting appropriate policies to manage risks to the DFSA's operations and the achievement of its objectives, and seeking regular assurance that internal controls are managing risks in accordance with these policies;
- maintaining a sound system of financial control; and
- providing an accountability mechanism for decisions of committees of the Board, through periodic reporting.

In accordance with principles of good corporate governance, all Directors are expected to bring an independent judgment to bear on issues of strategy, performance, resources, standards of conduct and key appointments.

All DFSA Board Directors are appointed by the President of the DIFC for three year terms. In addition, all Directors have entered into a service agreement with the DFSA which details terms of appointment, duties, remuneration and expenses, confidentiality, conflicts of interest, term and termination, and indemnities.

The Board comprises 12 Directors and all but the Chief Executive are independent non-executive Directors.

The following changes to the Board of Directors during the 12 months from 1 January 2005 until 31 December 2005 were as follows:

23 February 2005 The Earl of Home was appointed to the Board of the DFSA;

31 May 2005 David King's term as Acting Chief Executive of the DFSA came to an end;

1 June 2005 David Knott was appointed Chief Executive.

The DFSA has comprehensive Directors and Officers liability insurance cover which the Board considers adequate and appropriate. The policy excludes cover in the event a Board Director is proven to have acted fraudulently and dishonestly.

The Board, as required under the Regulatory Law, has appointed a Regulatory Appeals Committee and a Financial Markets Tribunal. The functions of these bodies are outlined on pages 19 and 20 respectively.

In addition to the committees required by statute, the Board has established four committees to assist it in discharging its functions. These are the Legislative Committee, Governance and Nominations Committee, Audit and Risk Committee (formerly the Finance and Audit Committee – see page 17) and the Remuneration Committee. The memberships of the Board's committees, with a brief summary of each committee's functions, are set out on pages 17 to 19.

The following schedule shows Board member attendance at meetings during the year, with attendance (either in person or by teleconference) shown as a proportion of the numbers of meetings individual Board members were eligible to attend.

	Board	Finance and Audit Committee	Governance and Nominations Committee	Legislative Committee	Remuneration Committee
Dr Habib Al Mulla	7/7				
The Hon Apurv Bagri	7/7	6/6	6/6		6/6
Michael Blair QC	7/7			9/9	
Robert L Clarke	7/7			9/9	
Lord Currie of Marylebone	7/7		6/6		5/6
Saeb Eigner	7/7	6/6	6/6		6/6
The Earl of Home	4/6	2/2	3/3		
David King	3/3			2/3	
David Knott	4/4	3/3	3/3	4/5	3/3
Robert Owen	7/7			3/3	6/6
Abdullah M Saleh	5/7	5/6			
Dr J Andrew Spindler	7/7	6/6	6/6		6/6
Georg Wittich	7/7			9/9	

Details of the total remuneration received or due and receivable for the fiscal year ended 31 December 2005, by the Board and Senior Officers of the DFSA are set out in Appendix 3.

DFSA Code of Values and Ethics

As part of its commitment to regulate to the highest international standards, the DFSA has adopted a Code of Values and Ethics to guide its own operations.

The Code sets appropriate international best practice standards in relation to the use of information, conflicts of interest, and the giving and receiving of gifts and benefits. It is designed to complement the conflict of interest provisions in the Regulatory Law. Under the Code, employees and consultants are required to:

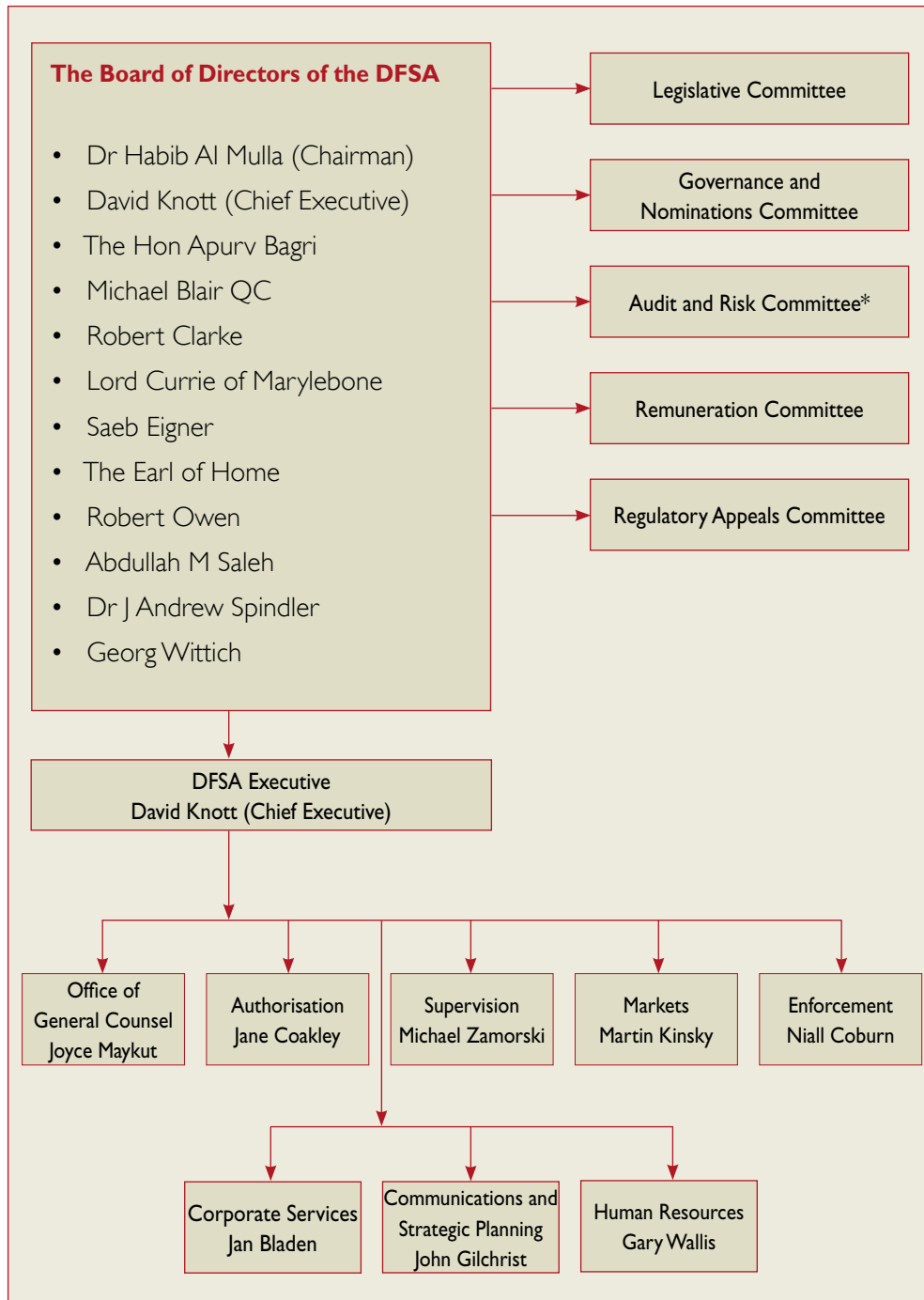
- declare on an annual basis their financial interests and those of their close associates;
- provide notification of any conflicts of interest or of any situation which may be perceived as a conflict of interest;
- seek prior clearance to deal in shares or investments of regulated entities;

- provide notification of gifts or benefits received in the course of carrying out their responsibilities.

The Code includes procedures for the management of perceived conflicts and perceived potential conflicts relating to close relationships between the staff of the DFSA and of other DIFC agencies. The Code sets out core values and ethics that the DFSA employees are expected to meet. These include:

- ethical and honest behaviour;
- prudence, care and diligence in the carrying out of our duties;
- treatment of others with impartiality, fairness, respect and courtesy;
- compliance with laws and with lawful and reasonable directions;
- maintenance of confidentiality;
- disclosure and avoidance of conflicts of interest (real or perceived);
- impartiality and professionalism in our decision making;
- no discrimination or harassment in the workplace or in the community;
- no improper use of information, or of position, in order to gain a benefit for themselves or for others;
- no activity that does not uphold the values, ethics or reputation of the DFSA.

THE DFSA GOVERNANCE MODEL



* On 23 January 2006 the Finance and Audit Committee was reconstituted as the Audit and Risk Committee, see page 17.



COMMITTEES OF THE BOARD

The DFSA Board has established five committees to assist it in its work. One of them, the Regulatory Appeals Committee, is mandated by the Regulatory Law. The membership of the committees and a summary of their functions are set out below. Some committees include members who are not members of the Board, while the Chairman of the DFSA Board is an ex-officio member of all Board Committees except the Finance and Audit Committee and the Regulatory Appeals Committee.

Legislative Committee

Michael Blair QC – Chairman

Robert L Clarke

David Knott

Robert Owen

Joyce Maykut QC

Ermanno Pascutto – External Committee Member (See below for professional biography)

Georg Wittich

The primary function of the Legislative Committee is to assist the Board in discharging its policy-making function and legislative function, including the development of legislation related to the regulation of financial services and related ancillary activities conducted in or from the DIFC.

Ermanno Pascutto is a lawyer and a former senior securities regulator in Hong Kong and Canada. He specialises in securities matters involving the regulation of public companies and financial intermediaries including advising with respect to disciplinary and enforcement matters, licensing, listings, governance and takeovers. He is currently Senior Advisor to the US law firm Troutman Sanders' Hong Kong Office and Counsel to a Canadian securities litigation boutique. He is a former founding director and Vice Chairman of the Hong Kong Securities & Futures Commission (1989 to 1994), chief operating officer of the Ontario Securities Commission (1984 to 1989) and director of market policy of the Toronto Stock Exchange. In addition to practicing law in Hong Kong and Canada, he also consults to stock exchanges and securities commissions in Hong Kong, the Middle East and the Caribbean.

Finance and Audit Committee*

Abdullah M Saleh - Chairman

The Hon Apurv Bagri

R Douglas Dowie – External Committee Member (See below for professional biography)

Saeb Eigner

The Earl of Home

David Knott*

Dr J Andrew Spindler

The primary function of the Finance and Audit committee is to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, the audit process and the processes for identifying, evaluating and managing the DFSA's principal risks impacting financial reporting.

*On 23 January 2006 the Board resolved that the Finance and Audit Committee be reconstituted as an Audit and Risk Committee and new Terms of References were adopted to better focus on the identification and mitigation of risk. Non-audit financial oversight has reverted to the full Board. The Terms of Reference also necessitated a review of the Committee composition. Neither the Chairman nor Chief Executive can be members but may attend by invitation.

R Douglas Dowie is Chief Executive Officer of National Bank of Dubai. He is also a Director of National Bank of Dubai Trust Company (Jersey) and Marsh Insko, an insurance brokerage company, incorporated in the UAE. Mr. Dowie joined the National Bank of Dubai, as General Manager, on 31 May 1999. A career international banker with what is now Standard Chartered Bank, Mr. Dowie's first assignment overseas took him to Aden in 1963 followed by assignments in the Middle East which included Lebanon, where he studied Arabic and graduated from the Middle East Centre for Arabic Studies. He subsequently served in Libya, Iran and most of the lower Gulf States. Apart from assignments in the Middle East, Mr. Dowie has served in the Far East with assignments in Hong Kong and Indonesia. After retiring from Standard Chartered Bank as Chief Executive Indonesia, and before joining National Bank of Dubai, Dowie was for three years Financial Advisor to the Chairman of Bukaka, an Indonesian publicly-listed engineering conglomerate.

Governance and Nominations Committee

Saeb Eigner - Chairman
The Hon Apurv Bagri
Lord Currie of Marylebone
The Earl of Home
David Knott
Dr J Andrew Spindler

The primary function of the Governance and Nominations Committee is to assist the Board in fulfilling its supervisory responsibilities in respect of the operations of the Board and its management, to identify individuals qualified to become Board members and to develop and recommend to the Board a set of corporate governance principles.

Regulatory Appeals Committee

Robert Owen – Chairman

Michael Blair QC

Robert L Clarke

John Holmes - External Committee Member (See below for professional biography)

Georg Wittich

The Regulatory Appeals Committee is established under Part 2 of the Regulatory Law 2004. It hears appeals from regulatory decisions made by the DFSA, and operates to ensure procedural fairness, objectivity and transparency in the decision making processes of the DFSA. Although it is established under the Regulatory Law, it has been given extended jurisdiction to hear appeals against certain types of decision made by the DFSA Executive under other legislation.

John Holmes has over 25 years' experience, both as a practising solicitor and in management roles at Clifford Chance. Most recently, he was managing partner of Clifford Chance Middle East where he was responsible for the development and implementation of strategy and the management of the firm's offices and strategic associations. Prior to this he was the managing partner of the firm's Moscow office, during which time he assisted with the implementation of the merger with Punder in Russia at the time of the firm's triple merger on 1 Jan 2000. Previous experience includes 7 years in Hong Kong managing the corporate and financial markets practice and 2 years in Bahrain. John also spent 2 years on secondment to a major multinational company in their European head office in Lausanne, where he was responsible for setting up the legal department for the newly created EEMA region and was the sole transactional lawyer. He practised in the London market for over 6 years where he specialised in a range of corporate and finance transactions. John is admitted as a solicitor in England and Wales, Hong Kong and the Australian Capital Territories.

Remuneration Committee

Dr J Andrew Spindler - Chairman

The Hon Apurv Bagri

Lord Currie of Marylebone

Saeb Eigner

David Knott

Robert Owen

The primary function of the Remuneration Committee is to assist the Board in fulfilling its responsibilities relating to all aspects of human resources at the DFSA, including performance, compensation and succession.

The Financial Markets Tribunal

Stewart Boyd QC - President

John L Douglas

Gavan Griffith QC

Ali Malek QC

Hesham A Qassimi

David M Stockwell

(for professional biographies, see below)

The Financial Markets Tribunal (FMT) was established under the Regulatory Law to serve as a convenient, swift and objective adjudicator of contraventions of DFSA administered legislation and related regulatory and commercial proceedings. The FMT is operationally independent of the DFSA Board of Directors.

The FMT is empowered to establish its own rules of procedure. It is also empowered to make a broad range of orders designed to address financial services regulatory related issues in the DIFC.

These orders include:

- imposition of fines and censures;
- compensation and restitution orders;
- accounts of profits and injunctions;
- orders restricting conduct, requiring trading to cease or requiring disclosure;
- declarations as to unacceptable circumstances in a takeover;
- orders giving relief to minority shareholders;

A party who wishes to appeal a decision of the FMT may apply to the DIFC Court.

Stewart Boyd CBE QC is a senior member of Essex Court Chambers in London, specialising in international commercial and investment disputes, mainly as arbitrator. He was called to the Bar in 1967 and was made a Queen's Counsel in 1982. He is the author, with Lord Mustill, of the leading English textbook on Commercial Arbitration. From 1998 to 2004 he was Deputy Chairman of the Financial Services Authority of the United Kingdom. He has presided over a number of government and regulatory inquiries and has presided as a Recorder over criminal trials and as a Deputy High Court Judge over civil and commercial trials. He was awarded the CBE in 2005 for his services to the financial sector. He is a Master of the Bench (the governing body) of the Middle Temple, one of the four Inns of Court in England with responsibility for legal education and other professional matters.

John L Douglas heads the bank regulatory practice at Alston & Bird, and practices from the firm's Washington DC and Atlanta offices. He served as General Counsel of the FDIC from 1987 until 1989 and is a member of the Board of Directors of the FSVC, a non profit organisation formed to assist former state-controlled economies develop banking and capital markets systems. In that capacity he has provided advice to the governments of Russia, China, Indonesia, Egypt and others. He is a member of the Executive Committee of the Banking Law Section of the Federal Bar Association. He is a frequent lecturer on banking law matters and is listed in The International Who's Who of Business Lawyers, Legal Media Group's Guide to the World's Leading Banking Lawyers, Chambers' American Leading Lawyers for Business and White's Best Lawyers in America.

Gavan Griffith QC practices as a barrister and international chartered arbitrator in Melbourne and also at Essex Court Chambers, London. He was Solicitor-General of Australia from 1984 to 1997. He appeared as counsel and agent for Australia at the International Court of Justice. He has had various international appointments, including Leader of Australia's Delegation, and sometime Vice-Chairman, of the United Nations International Trade Law Commission (UNCITRAL) including in sessions for the adoption of UNCITRAL Model Law of International Commercial Arbitration at Vienna in 1985. He was Consultant Counsel to the United Nations New York 1994 to 1995. Amongst other appointments he was Leader of the Australian Delegation to The Hague Conference on Private International Law 1992-1998, Member, and sometime Chairman, of INTELSTAT Panel of Legal Experts 1988 to 1997, and Member of the Permanent Court of Arbitration at The Hague 1987 to 1999. He is a Member of the Panel of Arbitrators at the International Centre for Settlement Investment Disputes (ICSID) and of various other arbitral institutions. He holds a D.Phil from Oxford University and has been a sometime fellow at Magdalen College Oxford. He now practices substantially as counsel and as chairman or member of international tribunals, including those administered by the Permanent Court of Arbitration, ICSID, LCIA (London), ICC (Paris) and other administered and non-administered arbitrations.

Ali Malek QC is a leading barrister in England and Wales specialising in all aspects of commercial law including banking and financial services law. He appears as counsel in cases in the UK Commercial Court, Court of Appeal, Privy Council and the House of Lords as well as in a number of substantial international arbitrations. He is a Bencher of the Honourable Society of Gray's Inn and a Recorder of the Crown Court. He is Treasurer of the Commercial Bar Association and a Member of the General Council of the Bar. He is also a co-author of Jack, Malek and Quest: Documentary Credits (3rd Edition). He obtained his MA

and BCL at Keble College, Oxford University. He was called to the Bar in 1980 and appointed Queen's Counsel in 1996.

Hesham A Qassimi joined the National Bank of Dubai in 1994, moved to Corporate Banking in 2001 and is currently the Deputy Head of Corporate Banking. He is a member of the Board of Director of National Financial Services, a subsidiary of the National Bank of Dubai. He has been selected for the Mohammad Bin Rashid Programme for Leadership Development; represented the Bank in various external forums and committees apart from acting as the Head of Private Office, Government unit and General Coordinator for the Directors of the Bank. He holds a Masters Degree in International Business.

David M Stockwell currently manages Stockwell & Associates, a law firm concentrating on corporate law, regulation of business and alternative dispute resolution for multinational and Middle Eastern clients. He is the former US Consul General in Dubai, was born in Saudi Arabia and has lived in the Middle East for more than forty years. He was admitted to the Bar in Texas, US in 1976 and was licensed in Dubai in 1989. He is a member of the Houston and International Bar Associations and a former President of the American Business Council of the Gulf Countries, the regional organization representing all American Chambers of Commerce in the GCC States. He is a Founder and Trustee of a not for profit educational foundation, The Cultural Foundation, established by Decree of the Ruler of Dubai that owns and operates the American School of Dubai.

THE DFSA SENIOR MANAGEMENT

David Knott - Chief Executive

(See biography on page 8)



Joyce Maykut QC – General Counsel

Joyce joined the DFSA in January 2004 as General Counsel. Joyce is responsible for the delivery of advice on all legal issues affecting the organisation. She received her Law Degree from the University of Alberta in 1973 and was called to the bar in British Columbia, Canada in 1974. After 2 years as a prosecutor with the Canadian Department of Justice, Joyce practised criminal law for 3 years. In 1981 she joined the office of the Attorney General of British Columbia, and over the next 9 years acted as Counsel and Senior Solicitor to various administrative tribunals, including the Securities Commission. Joyce was appointed Queen's Counsel in 1988. She was Vice Chair of the British Columbia Securities Commission for almost 14 years until December 2003, and was active in the Canadian Securities Administrators, Council of Securities Regulators of the Americas, North American Securities Administrators Association and IOSCO.



Jane Coakley – Managing Director, Authorisation

Jane joined the DFSA in February 2005 as Managing Director, Authorisation to oversee the team responsible for authorisation to carry on regulated activities within the DIFC. Jane's regulatory and industry experience includes senior positions at the Securities and Investments Board, London (both policy and supervision roles), Morgan Stanley (Executive Director) and, most recently before joining the DFSA, a non-executive role at the UK Financial Services Authority. Jane's education and qualifications include a BA degree in History (Trinity College, Washington DC including one year at St Anne's College, Oxford), an MSc in Finance and Accounting (London School of Economics and Political Science), an MBA (INSEAD, France) and the Certificate in Securities and Financial Derivatives from the Securities Institute in London.



Michael Zamorski – Managing Director, Supervision

Michael will join the DFSA in April 2006 after a 29 year career with the US Federal Deposit Insurance Corporation (FDIC) to oversee supervision of authorized firms within the DIFC. As FDIC's Director of the Division of Supervision and Consumer Protection, he was responsible for overseeing the FDIC's bank supervisory activities for safety and soundness, as well as compliance and consumer protection for the 5,200 institutions under its jurisdiction. Michael was a member of the Basel Committee on Banking Supervision, the prudential standard-setter for large, internationally-active banks, from 2000 to 2006. Michael holds a BS degree in Economics, conferred cum laude, from Villanova University, Pennsylvania and is a graduate of the American Bankers' Association's Stonier Graduate School of Banking.



Martin Kinsky – Managing Director, Markets

Martin joined the DFSA in March 2006 as Managing Director, Markets and has overall responsibility for the DFSA's regulation of the DIFX and other future exchanges that may receive authorization to operate within the DIFC. Martin was previously a senior executive at the Australian Stock Exchange (ASX). Over a career at the ASX spanning some 30 years, Martin has gained wide ranging experience of the operations of the Exchange. He has held various positions at the ASX including Company Secretary and General Counsel as well as managing the Membership/Intermediaries and Enforcement functions. Martin holds a Bachelor of Laws from Sydney University, is a solicitor entitled to practice in New South Wales, Australia and has had a long involvement with industry associations aimed at fostering and developing commercial and corporate law communities in Australia.



Niall Coburn – Director, Enforcement

Niall has been with the DFSA since March 2003 as Director of Enforcement. Niall is responsible for undertaking the enforcement activities on the part of the DFSA within the DIFC. Prior to joining the DFSA, Niall was a Principal Enforcement Lawyer with the Australian Securities Investments Commission (ASIC) and lectured in law part-time at a number of Universities. He has conducted large-scale corporate investigations both in Australia and internationally. In 2002, Niall received an ASIC Australia Day Honour Medal for his work in corporate investigations. Niall is admitted as a Barrister of the High Court of Australia and holds a Bachelor of Law and Arts and a Master of Laws from Melbourne University. He has published widely, in Australia and internationally, which include 14 articles and a reference book, "Coburn on Insolvent Trading, Global Investment Fraud and Corporate Investigations" published in 1999 with a second edition in 2002.



Jan Bladen – Chief Operating Officer

Jan joined the DFSA in February 2005 as Director for Risk Management and Special Projects and was promoted to Chief Operating Officer in June 2005. Prior to the DFSA Jan spent 7 years with PricewaterhouseCoopers in both Geneva and Dubai as a member of the Global Risk Management Practice. Jan has also held managerial positions in other European countries and spent 3 years as a management consultant with McKinsey Partners. From 1998 to 2003 Jan was President of Executives International, a Swiss based business networking association of 300 members. In 2000 Jan was elected to the Committee of the British Swiss Chamber of Commerce and remains both a Councillor and Committee Members. Jan is fluent in English, French and Spanish and obtained an MBA (Summa cum laude) from Lausanne in 1993.



John Gilchrist – Director, Communications and Strategic Planning

John will join the DFSA in April 2006 to develop the DFSA communications and strategic planning processes. John held senior positions at the London Stock Exchange as Head of Markets Planning and as Corporate Planner during a period of fundamental change, the 'Big Bang', establishing the Exchange's first strategic plan. He was the corporate planner at Clearstream International, Luxembourg and latterly director corporate communications, responsible for key stakeholder relationships, including media, staff and regulatory authorities. More recently, as Managing Director of reGEN, Luxembourg he has undertaken many strategic management and communications assignments, presented to and interviewed heads of state, authored papers and is a regular chair and public speaker on financial industry issues.



Gary Wallis – Head of Human Resources

Gary joined the DFSA in March 2006 as Head of Human Resources (HR) and is responsible for HR planning, management, policies and practices. Gary has more than 25 years experience internationally including 9 years in the financial sector. He has previously worked in Dubai as Regional Head of HR for ABN AMRO and held a senior HR development role for HSBC Bank. Gary has also been Global Head of HR for Private Clients and Asset Management Business Unit based in Amsterdam. Gary holds a BSc degree in Political Science and is a Fellow of the Institute of Personnel Development.

PART TWO - WHAT WE DO

REGULATORY STRUCTURE OF THE DFSA

The DFSA has been structured along functional rather than sectoral lines.

The Office of General Counsel (OGC) is responsible for providing legal advice to the Board of Directors and its committees, the Chief Executive and operating divisions on all legal issues affecting the DFSA. It is also responsible for developing and maintaining the laws and the DFSA rules for which the DFSA is responsible and for consulting with the DIFCA on other DIFC legislation. It also leads and co-ordinates the DFSA's role in international relations.

The Authorisation Division is responsible for considering applications to conduct financial or ancillary services in the DIFC. It also considers applications for individuals to be authorised to carry out certain roles in financial services firms, and for changes in the control of such firms.

The Supervision Division is responsible for supervising firms conducting financial or ancillary services. It leads policy development in the areas for which it is responsible, and assists the Authorisation Division where required.

The Markets Division is responsible for the licensing and supervision of exchanges and clearing houses as well as Recognised Members. It also supervises the conduct of Reporting Entities and is a contributor to the development of policy and changes to rules that relate to its supervisory portfolio.

The Enforcement Division is responsible for taking action against financial and ancillary services firms that do not meet the high standards required in the DIFC. It may also take action against individuals in such firms. In certain circumstances it may take action against other persons, for example in cases of market misconduct. The Division is also responsible for the administration of the Data Protection legislation.

The Corporate Services and Operations Division encompasses human resources, information technology, finance, project and risk management and administration within the DFSA.

RISK BASED REGULATION

The DFSA is a risk based regulator. It assesses the risks to the achievement of its objectives, and sets priorities for the use of its resources to mitigate those risks. This principle applies when dealing with individual firms, between firms of a similar type, and between sectors.

The DFSA adopts a continuous risk management cycle comprising the identification, assessment, prioritisation and mitigation of risks. Risks may arise from areas within the firm including business, operations, internal controls and compliance arrangements. General risk factors are also included in the risk management process, including external factors that apply either to particular sectors of the regulated community or to the entire community.

Systematic assessment of risk also allows the DFSA to identify common issues between firms, for example a pattern of weak corporate governance in firms of a certain type, and to undertake thematic work in response.

The DFSA also undertakes market monitoring and research in order to identify, assess and address any developments either within or outside the DIFC which may pose a risk to the Centre or a particular section of the DIFC community.

This philosophy applies to all parts of the DFSA, and all its dealings with firms, whether these relate to authorisation, supervision or enforcement.

OFFICE OF GENERAL COUNSEL (OGC)

With the assistance of the dedicated administrative staff the OGC accomplished the following specific objectives in 2005 while continuing to provide ongoing legal advice to the organisation.

Legislative

The creation of the DIFC legislative framework continued in 2005 resulting in the development and enactment of the following laws and rules:

Legislation administered by the DFSA

Trust Law – DIFC Law No.11 of 2005

DFSA Rules

OSR - Offered Securities Rules

AMI - Authorised Market Institutions Rules

REC - Recognition Rules

PRS - Price Stabilisation Rules

TKO - Takeover Rules

Legislation administered by the DIFCA

Employment Law – DIFC Law No.4 of 2005

Law of Obligations – DIFC Law No. 5 of 2005

Law of Implied Terms in Contract and Unfair Terms Law – DIFC Law No.6 of 2005

Law of Damages and Remedies – DIFC Law No.7 of 2005

Law of Security – DIFC Law No.8 of 2005

Personal Property Law – DIFC Law No.9 of 2005

Consultation Paper:

In conjunction with the above Legislation the OGC developed and published for comment the following consultation papers

CP No. 13 Price Stabilisation Rules

CP No. 14 Rules for Listed Funds

CP No. 15 Alternative Trading Systems

CP No. 16 Policy Statement on Confidential Regulatory Information

CP No. 17 Trust Law

CP No. 18 Takeover Rules

CP No. 19 Trust Companies Law

CP No. 20 DFSA Draft Policy Statement on Start Up Entities

CP No. 21 The Collective Investment Law

CP No. 22 Trust Service Providers Rules

On the legislative front for 2006, the OGC expects to complete and have enacted the full Collective Investment Fund regime.

Policy

Recognising the importance of having an expert resource dedicated to the analysis and coordinated development of policy issues and guidance relating to its legislation, the DFSA established the Regulatory Policy Group within the OGC in September 2005. The Group, which is headed by Special Counsel, is staffed with one policy counsel. However it is anticipated further resources will be required to respond to an increase in policy development. The following policy statements were issued in 2005.

Policy Statement 1/2005 Confidential Regulatory Information

This policy statement describes how the DFSA protects, uses and discloses confidential information that it receives in the course of regulating financial services in the DIFC. It confirms that foreign banking secrecy laws do not apply in the DIFC.

Policy Statement 2/2005 Start Up Entities in the DIFC

The DFSA Board agreed in 2005 to remove its prohibition on licensing "Start Up" entities apart from the prohibition in relation to "Start Up" banks reflecting the restriction in article 4(1) of Federal Law No 8 of 2004. The new policy became fully operational from 1 January 2006. "Start Ups" are either new financial services businesses or existing financial services firms which have never been subject to financial services regulation. Originally the Board had resolved that the risks associated with "Start-Ups" would be too great for the DIFC in its early years when the DFSA was establishing its reputation. It was always envisaged, however, that the policy would be reviewed after the first few years of operations.

Several significant policy issues are under development and it is expected that several policy papers and statements will be issued for consultation and making in 2006.

International Affairs

Strong co-operative relationships with other regulators continues to be of considerable importance to the DFSA, particularly as a growing number of international firms participating in the DIFC are also subject to financial services regulation in other jurisdictions. The DFSA is also playing a more active role as a member of the international regulatory community. In recognition of these priorities, a Director of International Relations, within the OGC, was appointed in August 2005.

In early 2005 the OGC initiated discussions on MoUs with a number of foreign financial services regulators. The initial focus was of necessity focused on the principal home jurisdictions of financial services applicants seeking to operate in the DIFC. However, the DFSA intends to formalise particular relationships with other regulators in the region.

The following MoUs were signed in 2005:

1. Financial Services Commission of the Isle of Man (Dubai, 21 February 2005)
2. Insurance and Pensions Authority of the Isle of Man (Dubai, 21 February 2005)
3. Securities & Commodities Authority of the UAE (Abu Dhabi, 27 September 2005)
4. Dubai Police (Dubai, 30 November 2005)

5. Capital Markets Board of Turkey (Istanbul, 8 November 2005)

In addition, in contemplation of the establishment of the Dubai Mercantile Exchange in the DIFC in 2006, a Protocol Concerning Mutual Assistance, Information Sharing and Cooperation Arrangements with Commodity & Futures Trading Commission (CFTC) of the United States was signed between the Chairman of the CFTC and the DFSA's Chief Executive in New York, 1 December 2005.

Three further MoUs were signed in the New Year:

1. Financial Services Authority of the United Kingdom (London, 28 February 2006)
2. Securities & Exchange Commission of Thailand (Dubai, 12 March 2006)
3. Financial Services Commission of Jersey (Dubai, 13 March 2006)

As a member of the IAIS, the international standards-setting body for insurance, the DFSA continues to contribute to the work of its Emerging Markets Committee and is an active member of its Education Subcommittee, the Reinsurance Subcommittee, and the Insurance Fraud Subcommittee and is also participating in an IAIS initiative to establish a multilateral MoU for the insurance sector. As an Associate Member of the IFSB, the DFSA has also contributed to the drafting of a 10-year Masterplan for the Islamic Financial Services Industry and participated in a working group on Islamic insurance (Takaful). It remains an Observer member of the Accounting and Auditing Standards Organization for Islamic Financial Institutions (AAOIFI).

In April 2005 the DFSA was admitted as an Associate Member of IOSCO and by virtue of this membership it is also a participant in IOSCO's Emerging Markets Committee and its African and Middle East Regional Committee, in addition to IOSCO's Implementation Taskforce, which is the principal working group dealing with assessment of international principles for securities regulators.

In January 2006 the DFSA filed its application to become a signatory to the IOSCO Multilateral MoU, an initiative that sets the benchmark for international cooperation among regulators and already includes the leading authorities among its members.

Other Initiatives

Recognising the importance of making its laws and rules easily accessible and available to the financial services community and public, the OGC initiated and coordinated the launch of an enhanced DFSA Legislative Material online hosting service. Complanet, a leading global provider of regulatory news and analysis services to the financial services compliance industry, was retained by the DFSA to use its innovative technology platform to provide the improved user-friendly service.

This newly-hosted solution, and the first in the Middle East regulatory market, went live on 12 December 2005 and other regional regulators and related authorities have

since followed the DFSA's lead. The service constructed by Complinet and DFSA facilitates browsing, searching and viewing required content, as well as offering the capacity to view the DFSA legislative material. Benefits for users include the ability to view associated material via links, bookmark individual rules for easy access, and gain quick access to recent rule updates. Complinet have also completed similar projects for other regulators such as the Financial Services Authority in the UK and NASD in the USA.

AUTHORISATION

Organisation and resources

Significant effort was dedicated in 2005 to building capacity for sustainable performance. The Division increased its resources substantially in order to strengthen its management and to improve the efficiency and effectiveness of the Authorisation core processes. The overall increase of six employees in Authorisation included a net increase of three case officers devoted wholly to processing the substantial increase in applications from Firms, ASPs and individuals seeking Authorised Individual status. The Division also recruited a specific person to handle the large increase in the volume of wide ranging authorisation-related enquiries.

The Division launched a major Business improvement initiative to identify and remove any non-value added activities and to maximise efficiency. The main benefits including better oral and written communication with key stakeholders (eg applicant firms and DIFCA) should become more fully apparent in 2006.

Policy Statements

Two important policy statements on confidential regulatory information and start up entities were issued in 2005 in response to authorisation-related issues raised by potential applicants. An explanation of the policy statements can be found on Page 28 and the full text is published on the DFSA website.

Overview of 2005 Authorisation activity

Authorised Firms (AFs)

The increase in the number of AFs during 2005 was 19 (2004: 5 firms were authorised).

Registered Ancillary Service Providers (ASPs)

The increase in the number of registered ASPs during 2005 was 12 (2004: 3 ASPs were registered).

Authorised Individuals and Licensed Functions

The number of Authorised Individuals approved to perform one or more Licensed Functions during 2005 was 205 (2004: 36 were granted Authorised Individual Status).

Details of 2005 Authorisation activity

The details of applications in progress remain confidential although all approvals (licences, registration and authorized individual status) are published on the Public Register which can be found on the DFSA website. For ease of reference, the relevant section of the Register in relation to AFs and Registered ASPs as at 31 December 2005 is set out on the following pages.

Authorised Firms	Licensed
EFG-Hermes UAE Limited	29 Dec 05
EFG Bank	28 Dec 05
Standard Bank PLC	15 Dec 05
Rasmala Investments Limited	13 Dec 05
ICICI Bank Limited	11 Dec 05
Lloyds TSB Bank plc	01 Dec 05
Man Investments Middle East Limited	01 Dec 05
Takaful Re Limited	01 Dec 05
Kotak Mahindra (UK) Limited	29 Nov 05
Deutsche Bank AG	25 Oct 05
Invesco Asset Management Ltd	25 Sep 05
Banque Meespierson BGL SA	06 Sep 05
Persia International Bank plc	02 Aug 05
Barclays Bank plc	30 Jun 05
Permal Investment Management Services Ltd	13 Jun 05
Merrill Lynch Bank (Suisse) SA	05 Apr 05
Bank Sarasin-Alpen (ME) Ltd	27 Feb 05
Mellon Global Investments Ltd	01 Feb 05
Credit Suisse	01 Jan 05
Ansbacher & Co Ltd	01 Dec 04
Franklin Templeton Investment Management Ltd	30 Nov 04
Standard Chartered Bank	20 Sep-04
Julius Baer (Middle East) Ltd	20 Sep 04
The GCC Energy Fund Managers Ltd	17 Sep 04

Registered Ancillary Service Providers	Registered
Pannell Kerr Forster	14 Dec 05
Japan Bank for International Cooperation	14 Dec 05
Rasmala Investments Holdings Limited	13 Dec 05
Clifford Chance LLP	08 Dec 05
Walkers (Dubai) LLP	06 Dec 05
Zurich International Life Ltd	19 Sep 05
Maples and Calder	25 Aug 05
Swiss International Legal Consultants Ltd	29 Jun 05
KPMG LLP	21 Jun 05
The Export-Import Bank of Korea	26 Apr 05
Mourant & Co Ltd	10 Apr 05
Alliance International Reinsurance Company Ltd	26 Jan 05
AIG Memsa Inc	22 Dec 05
Total Solutions Europe BV	29 Sep 04
JLT Risk Solutions Ltd	27 Sep 04

SUPERVISION

In 2005, the character of the Supervision Division's activities changed greatly, as it moved from mainly preparatory work to active supervision. Whereas at the end of 2004 there were 8 Authorised Firms and 3 Ancillary Services Providers, all of them in the very early stages of operation, by the end of 2005 the figures were 24 and 15, respectively.

Risk Assessments

During 2005, risk assessments commenced for AFs authorised in 2004.

DFSA's risk assessment methodology is largely set out in the Supervision Module of the DFSA Rulebook. The process commences with a high level meeting normally within 3 months of authorisation, and then a first full risk assessment is conducted within 6 months, though this can be delayed, for example, if the firm has taken several months to begin operations. Although this risk assessment builds on the work that has been done at the authorisation stage, it is the first opportunity to evaluate the firm's processes, systems and controls in practical operation.

These first risk assessments have validated the risk assessment framework and processes as a way both of identifying risks within firms and assigning supervisory priorities.

Regulatory Regime

2005 has been the first year in which the DIFC regulatory regime has been substantially tested in practice. Improvements have been ongoing and Supervision has contributed to a number of detailed changes to regulatory policy and process following consultation with OGC, as well as to firm-specific waivers and modifications. In general, these have vindicated the underlying structure and flexibility of the DIFC regime.

Self Assessments

Self-assessments of the DIFC's regulatory regime were also completed against the core principles of the IAIS and the Basel Committee on Banking Supervision. Assessments against the corresponding standards of the IOSCO and the Financial Action Task Force (FATF) were under way at year end. This important benchmarking against international standards will allow the DFSA to identify areas where the regime may need development or enhancement in the future.

Anti Money Laundering (AML) Theme Review on Suspicious Transaction Reports

During the year, the Supervision and Enforcement Divisions conducted the first theme review, covering the processes within AFs and ASPs for identifying suspicious transactions and making reports to the AML Suspicious Cases Unit of the UAE Central Bank. This work is reported in more detail on page 43.

The first STR from a DIFC firm was filed during the year. As a result of the active involvement of Supervision staff in the IAIS Insurance Fraud subcommittee, the DFSA



was invited to participate in the FATF typologies project regarding money laundering and terrorism financing trends and indicators

Support and Advisory Activities

The Supervision Division has also devoted considerable effort in assisting the relationship management team in DIFCA and the DFSA's own Authorisation Division in meeting prospective applicants and enabling the applicants to understand the DIFC legislation. They have also supported the authorisation process by assessing the quality of the regulatory regimes applying to applicants and potential applicants in their home countries, using where possible the assessments produced by the International Monetary Fund and World Bank.

International Activities

Supervision staff have been actively involved in a number of international activities, especially in the fields of insurance and Islamic finance. These have included contributions to the drafting of the 10-year Masterplan for the Islamic Financial Services Industry, and working groups of the IAIS and the IFSB, dealing with such topics as supervisory processes, Islamic insurance (Takaful), and financial reinsurance.

MARKETS

Regulatory Activities

In September 2005 the DFSA authorised the DIFX to trade in equities, fixed income, bonds, funds, Islamic products and Designated Investments. Features of the exchange, include cash settlement on a T+3 basis, a clearing house providing multilateral netting, and a central securities depository recording all trading, clearing and settlement activities on the exchange.

The Markets Division was instrumental in the rigorous testing of policies, procedures, systems and controls to ensure the DIFX met the highest standards of international best practice that enabled it to be authorised by the DFSA. The review included a full evaluation of trading, clearing and settlement systems as well as IT systems, AtosEuronext trading platform, the eClearSettle system and the Companies Announcement Platform.

Members

Following authorisation of the DIFX the DFSA received and processed membership applications from the following members of the international banking community:

- Barclays Capital Securities Limited
- Credit Suisse Securities (Europe) Limited
- Citigroup Global Markets Limited
- Deutsche Bank AG
- HSBC PLC
- Morgan Stanley & Co International
- UBS AG

The above became Recognised Members to provide financial services relating to trading, clearing and settlement activities in the DIFC.

Further applications, awaiting assessment, have been received from institutions domiciled both in the GCC and internationally recognised jurisdictions.

New issues

The first products listed on the exchange were Designated Investments issued by Deutsche Bank. The DFSA recently endorsed a listing on the DIFX of the world's largest Sukuk.

A complete list of the products listed on the DIFX as at 31 December 2005 is shown below.

Issuer	Type	Category	Listing date
Deutsche Bank	Equity	Certificate over Index	19 Dec 05
Deutsche Bank	Equity	Certificate over Index	19 Dec 05
Deutsche Bank	Equity	Certificate over Index	19 Dec 05
Deutsche Bank	Equity	Certificate over Index	19 Dec 05
Investcom	Equity	Global Depositary Share	14 Dec 05
Deutsche Bank	Equity	Certificate over Index	26 Sept 05
Deutsche Bank	Equity	Certificate over Index	26 Sept 05
Deutsche Bank	Equity	Certificate over Index	26 Sept 05
Deutsche Bank	Equity	Certificate over Index	26 Sept 05
Deutsche Bank	Equity	Certificate over Index	26 Sept 05

Supervision

Following authorisation, the DFSA and the DIFX have worked co-operatively to regulate and supervise the market, trading and clearing and settlement facilities operated by the DIFX. This co-operation is based on the understanding that the DFSA operates as the independent senior regulatory body.

Notifications

The DIFX has not reported and the DFSA has not detected any contraventions of the Business or Listing Rules of the DIFX.

Waivers

The Markets Division made several recommendations for approval of waivers to the Offered Securities Rules as they applied to listed entities. The recommendations posed no additional regulatory or commercial risk to consumers of financial products and services.

Organisation and Resources

The Markets Division embarked on a recruitment initiative during the period to achieve its objectives, maximise its efficiency and to enhance its responsiveness to the market. Specialist consultants were engaged to advise on key aspects of the DIFX authorisation process. Additional resources were recruited to supplement the supervision of primary and secondary market activity and a Managing Director was appointed and took office in March 2006.

It is anticipated that expansion of the market will place additional resource demands on the Division in 2006 and beyond.

ENFORCEMENT

In 2005 the Enforcement Division's role changed from contributing to the drafting of legislation and the administrative framework to an operational division.

Operational

There were no breaches of the law or regulations administered by the DFSA that necessitated a formal enforcement response during 2005.

The DFSA has assisted UAE law enforcement agencies in closing down a "boiler room" operation outside our jurisdiction. DFSA Enforcement staff provided their expertise and technical assistance together with information obtained from its relationships with other international regulators to stop the illegal operation.

The Enforcement team has assisted in processing formal requests from a number of international regulatory agencies and has been successful in obtaining information and assisting the relevant regulators.

MoUs with local agencies

The Division's relationship with other local enforcement agencies has always been of high priority and the Enforcement Division was instrumental in the drafting and arranging of the MoU with the Dubai Police (See Page 28).

AML Initiatives and Suspicious Transaction Reporting

The DFSA undertook a review of suspicious transaction reporting in AFs and ASPs. This review is reported in detail on Page 43.


International Liaison

Further to its mandate to ensure ongoing cooperation between the DFSA, local and international agencies, the Enforcement Division implemented an "outreach programme" to increase its contact with various key authorities and persons involved in the regulation and enforcement of financial services and AML legislation.

Education

The Enforcement Division has a mandate to ensure a high level of awareness in relation to financial services regulation and training in AML and combating terrorist finance.

In November 2005 the Enforcement Division hosted forty foreign representatives interested in financial services regulation and enforcement of AML and counter terrorist financing legislation. It was emphasised that the DFSA will take a swift, proactive approach to financial market misconduct and financial crime. In addition, Enforcement staff gave presentations in local and international forums and specifically focused on the GCC region.



The Enforcement Division also assisted the FSVC by conducting training on surveillance and enforcement to the Surveillance Department at the Cairo & Alexandria Stock Exchanges (CASE) and contributed to the FSVC report to CASE.

Assistance to DIFCA

Enforcement has contributed to the Risk and Integrity Committee of DIFCA and presented training sessions on AML and combating terrorist finance.

DATA PROTECTION

The DFSA administers the Data Protection Law 2004 and the Data Protection Rules Module, which governs all persons operating in the DIFC, including the agencies charged with the task of administration and regulation of the DIFC. The data protection legislation was modelled on data protection principles set out in European Union legislation.

The legislation governs how personal information is to be processed, managed and protected within the DIFC and under what conditions it may be transferred outside the DIFC.

In 2005 the DFSA implemented practices and procedures for the operation of a Data Protection Registry and appointed a Data Protection Coordinator for that purpose. As the DFSA itself is also subject to the Law, appropriate internal Chinese wall arrangements were also established to separate the regulator from the regulated.

Education featured heavily throughout the year and all firms within the DIFC were contacted and made aware of compliance requirements. However, as this is the first data protection registry in the Middle East, the DFSA will not confine its education programme solely within the DIFC.

As at 31 December 2005, 51 notifications were processed and recorded in the Data Protection Registry.



CORPORATE SERVICES AND OPERATIONS

In 2005, the Human Resources, IT and Finance Departments were all internalised, the Administration Department strengthened and a Projects and Risks Management Department established. These departments formed the Corporate Services and Operations Division.

Human Resources

Recognising the strategic importance of the quality of regulatory staff within the DFSA, considerable effort was spent throughout 2005 in overhauling the entire human resources reward strategy. This included reviewing salary banding, organisational structures, allowances, employment contracts and other human resource factors, to enable the DFSA to become an attractive regulatory employer of choice.

Another initiative was the establishment of a salary hedging mechanism which ensures that expatriate staff suffer limited financial impact from any further potential devaluation in the US Dollar.

In addition, a Human Resources Committee was formed to ensure the sound development of all required Human Resources Policies to support the current and future expected growth of the DFSA.

Information Technology (IT)

A completely independent IT network was securely established during the year, incorporating offsite data backup. Various software solutions were also implemented to support the process activities of the organisation including budgeting, procurement, human resource and payroll management as well as DFSA's bespoke Regulatory Information Systems package.

An IT Steering Committee was formed to ensure that all IT projects aligned and supported the requirements of the various divisions within the DFSA. The IT Steering Committee also ensures that IT projects and the allocation of IT resources are prioritised in accordance with the Divisions' priorities.

Finance

Third party assurance was sought to ensure the appropriate and correct functioning of the Finance Department. Deloitte & Touche (ME) was retained as internal auditors during 2005 and completed their first internal audit review with no major issues identified.

Deloitte & Touche (ME) was also retained in 2005 to carry out post implementation reviews in 2006 of the key software packages that were implemented namely; the Microsoft Great Plains Software to support the Finance Department and the Gulf HR Software to support the Human Resources requirements of the DFSA.

Projects and Risk Management

To improve the efficient running of the DFSA, the Projects and Risk Management Department initiated a complete process improvement review throughout the organisation to streamline the Authorisation, Markets, Supervision, and Enforcement processes. The principle objective of this exercise was to ensure efficiency, speed and accuracy in the actual daily regulatory operations and workings of the DFSA. This process improvement methodology ensured an alignment between the Regulatory Information Systems software package that was implemented throughout the DFSA during 2005, and the related internal policies and procedures.

Outlook

Due to the dedicated efforts of all members of the Corporate Services and Operations Division throughout 2005, it is felt that the DFSA now has a solid operating platform for 2006 and beyond.

ANTI MONEY LAUNDERING (AML) THEME REVIEW ON SUSPICIOUS TRANSACTION REPORTING (STR)

A joint Supervision and Enforcement DFSA team conducted a review of the AML procedures of AFs and ASPs with particular emphasis on compliance with STR processes. The objective of this review was to ascertain whether the STR process within AFs and ASPs was adequate to ensure STRs could be identified and reported to the relevant authorities. The review related to the period from 20 September 2004 to 23 June 2005.

The review was conducted in two stages. In stage one, a desk based review was conducted by reviewing the AFs and ASPs AML policies and procedures. It also focused on other criteria, such as the nature and activities of the firm and the length of authorisation. In stage two on-site reviews were conducted. The inspections involved a discussion with the relevant senior individuals within the firms. It focused on an AML risk matrix questionnaire specifically targeting policies and procedures pertaining to STRs. They dealt, amongst other things, with the following issues:

- Policies and procedures;
- Training and awareness; and
- Know Your Customer / Customer Due Diligence.

The AML theme review was well received and Supervision and Enforcement conducted information and liaison sessions with AFs and ASPs, receiving very positive feedback in relation to that initiative.

APPENDICES

APPENDIX I

Financial statements For the year ended 31 December 2005

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Statement of financial performance	50
Statement of changes in equity	51
Statement of cash flow	52-53
Notes to the financial statements	54-60



**Independent auditors' report
to the Board of the Dubai Financial Services Authority**

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We have audited the accompanying balance sheet of the Dubai Financial Services Authority ("DFSA") as at 31 December 2005 and the related statements of financial performance, changes in equity and cash flows for the year then ended. These financial statements set out on pages 49 to 60 are the responsibility of DFSA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements have been prepared in all material respects in accordance with the accounting policies set out on pages 54 and 55 of the financial statements.

PricewaterhouseCoopers

23rd March 2006

PricewaterhouseCoopers is registered as practicing accountants with the DFSA.



Balance sheet at 31 December 2005

	Notes	2005		2004 (Restated)	
		AED'000	US\$'000	AED'000	US\$'000
ASSETS					
Non-current assets					
Property and equipment	3	13,666	3,724	971	264
Intangible asset	4	<u>906</u>	<u>247</u>	<u>-</u>	<u>-</u>
		<u>14,572</u>	<u>3,971</u>	<u>971</u>	<u>264</u>
Current assets					
Prepayments and other receivables	5	4,644	1,265	1,085	296
Cash and cash equivalents	6	<u>41,136</u>	<u>11,209</u>	<u>2,025</u>	<u>551</u>
		<u>45,780</u>	<u>12,474</u>	<u>3,110</u>	<u>847</u>
Total assets		<u><u>60,352</u></u>	<u><u>16,445</u></u>	<u><u>4,081</u></u>	<u><u>1,111</u></u>
EQUITY AND LIABILITIES					
Equity					
Contributed capital	2	18,319	4,994	1,641	448
Accumulated surplus/(deficit)		<u>5,881</u>	<u>1,600</u>	<u>(2,678)</u>	<u>(731)</u>
		<u>24,200</u>	<u>6,594</u>	<u>(1,037)</u>	<u>(283)</u>
Current liabilities					
Accounts payable and accruals	7	<u>34,269</u>	<u>9,338</u>	<u>3,963</u>	<u>1,079</u>
Non-current liabilities					
Provision for employees' end of service benefits	8	<u>1,883</u>	<u>513</u>	<u>1,155</u>	<u>315</u>
Total equity and liabilities		<u><u>60,352</u></u>	<u><u>16,445</u></u>	<u><u>4,081</u></u>	<u><u>1,111</u></u>

The financial statements were approved by the DFSA Board on 23 March 2006.



Signed on behalf of the DSFA Board

The notes on pages 54 to 60 form an integral part of these financial statements.

**Statement of financial performance
for the year ended 31 December 2005**

	Notes	Year ended 31 December 2005		16 February 2002 to 31 December 2004 (Restated)	
		AED'000	US\$'000	AED'000	US\$'000
Appropriations from the Government	2	64,019	17,442	72,697	19,807
Fee income	2	6,893	1,878	1,810	493
Other income		<u>570</u>	<u>155</u>	<u>-</u>	<u>-</u>
Total income		<u>71,482</u>	<u>19,475</u>	<u>74,507</u>	<u>20,300</u>
General and administration expenses	9	(53,657)	(14,620)	(9,164)	(2,497)
Board of Directors' expenses	11	<u>(9,266)</u>	<u>(2,524)</u>	<u>(2,393)</u>	<u>(652)</u>
Total expenses		<u>(62,923)</u>	<u>(17,144)</u>	<u>(11,557)</u>	<u>(3,149)</u>
Surplus for the year/period before pre- operating expenditure		8,559	2,331	62,950	17,151
Pre-operating expenditure	12	<u>-</u>	<u>-</u>	<u>(65,628)</u>	<u>(17,882)</u>
Surplus/(deficit) for the year/period		<u>8,559</u>	<u>2,331</u>	<u>(2,678)</u>	<u>(731)</u>

Statement of changes in equity

	Contributed capital		Accumulated (deficit)/ surplus		Total	
	AED'000	USD'000	AED'000	USD'000	AED'000	USD'000
Period ended 31 December 2004						
At the beginning of the period as previously stated	-	-	-	-	-	-
Capital contributed (Note 2)	1,641	448	-	-	1,641	448
Deficit for the period	<u>-</u>	<u>-</u>	<u>(2,678)</u>	<u>(731)</u>	<u>(2,678)</u>	<u>(731)</u>
At 31 December 2004 as restated	<u><u>1,641</u></u>	<u><u>448</u></u>	<u><u>(2,678)</u></u>	<u><u>(731)</u></u>	<u><u>(1,037)</u></u>	<u><u>(283)</u></u>
Year ended 31 December 2005						
At 1 January 2005	1,641	448	(2,678)	(731)	(1,037)	(283)
Additional capital contributed (Note 2)	16,678	4,546	-	-	16,678	4,546
Surplus for the year	<u>-</u>	<u>-</u>	<u>8,559</u>	<u>2,331</u>	<u>8,559</u>	<u>2,331</u>
At 31 December 2005	<u><u>18,319</u></u>	<u><u>4,994</u></u>	<u><u>5,881</u></u>	<u><u>1,600</u></u>	<u><u>24,200</u></u>	<u><u>6,594</u></u>

Statement of cash flows for the year ended 31 December 2005

	Notes	Year ended		16 February 2002	
		31 December 2005		to 31 December 2004	(Restated)
		AED'000	US\$'000	AED'000	US\$'000
Operating activities					
Surplus/(deficit) for the year/period		8,559	2,331	(2,678)	(731)
Adjustments for the following item					
Depreciation	3	2,755	750	670	184
Amortisation	4	113	31	-	-
Loss on sale of property and equipment		159	44	-	-
Provision for employees' end of service benefits	8	1,591	433	1,388	378
Provision for employees' end of service benefits transferred from DIFCA		89	24	-	-
Interest income		<u>(567)</u>	<u>(155)</u>	<u>-</u>	<u>-</u>
Operating cash flows before payment of employees' end of service benefits and movements in working capital		12,699	3,458	(620)	(169)
Payment of employees' end of service benefits	8	(952)	(259)	(233)	(63)
Changes in working capital:					
Prepayments and other receivables	5	(3,512)	(956)	(1,085)	(296)
Accounts payable and accruals	7	<u>30,306</u>	<u>8,259</u>	<u>3,963</u>	<u>1,079</u>
Net cash provided by operating activities		<u>38,541</u>	<u>10,502</u>	<u>2,025</u>	<u>551</u>

Statement of cash flows for the year ended 31 December 2005 (continued)

	Notes	Year ended 31 December 2005		16 February 2002 to 31 December 2004 (Restated)	
		AED'000	US\$'000	AED'000	US\$'000
Investing activities					
Purchase of property and equipment	3	(15,659)	(4,268)	(1,641)	(448)
Proceeds from sale of property and equipment		50	14	-	-
Purchase of intangible assets	4	(1,019)	(278)	-	-
Net cash used in investing activities		<u>(16,628)</u>	<u>(4,532)</u>	<u>(1,641)</u>	<u>(448)</u>
Financing activities					
Interest received		520	142	-	-
Additional contributed capital		<u>16,678</u>	<u>4,546</u>	<u>1,641</u>	<u>448</u>
Cash generated from financing activities		<u>17,198</u>	<u>4,688</u>	<u>1,641</u>	<u>448</u>
Net increase in cash and cash equivalents		39,111	10,658	2,025	551
Cash and cash equivalents, beginning of the year	6	<u>2,025</u>	<u>551</u>	-	-
Cash and cash equivalents, end of the year	6	<u>41,136</u>	<u>11,209</u>	<u>2,025</u>	<u>551</u>

Notes to the financial statements for the year ended 31 December 2005

1. Legal status and activities

The Dubai Financial Service Authority ("DFSA"), was established by Dubai Law No (9) of 2004 as an independent regulatory authority responsible for the regulation of financial and related activities at the Dubai International Financial Centre ("DIFC"). In accordance with Dubai Law No. (9) of 2004, the DFSA is and will continue to be independently funded by the Government of Dubai ("the Government") to enable it to exercise its powers and perform its functions.

2. Accounting policies

The significant accounting policies adopted in the preparation of these financial statements are as follows:

Basis of preparation

The financial statements have been prepared under the historical cost convention.

During the year 2005, the basis of accounting for funding received from the Government was changed. Previously, all funding received from the Government was treated as a grant and was included in the statement of income and expenditure. Under the revised basis of accounting, funding for the purchase of property and equipment and intangible assets is treated as contributed capital and that for meeting operational expenditure is recognised as an appropriation from the Government in the statement of financial performance. Prior year comparatives have been restated to reflect this change in the basis of accounting for Government funding.

The functional currency of the DFSA, being the currency in which it generates and expends a majority of its cash, is UAE Dirhams (AED). For presentation purposes only, these financial statements have been translated into US Dollars at the fixed rate of exchange of US Dollar 1 = AED 3.67.

Fee income

Application fees, which are non refundable, are recognised as income when received. Annual fees are recognised as income over the period to which they relate.

Contributed capital and appropriations from the Government

Funds received from the Government towards the acquisition of property and equipment and intangible assets are treated as contributed capital and those received for meeting operational expenditure are recognised in the statement of financial performance as appropriations from the Government.

Notes to the financial statements for the year ended 31 December 2005 (cont.)

Employee benefits

A provision is made for the estimated liability for annual leave costs as a result of services rendered by eligible employees up to the balance sheet date. This provision is included in other liabilities.

Provision is made for the full amount of end of service benefits due to the non UAE nationals, in accordance with the Employment Law-DIFC Law No. (4) of 2005 for their periods of service up to the balance sheet date. This provision is included in non-current liabilities. Pension contributions in respect of UAE Nationals under a defined contribution scheme are recognised as an expense in the period to which they relate.

Personal tax reimbursable to non-executive DFSA Board members in respect of the fees payable to them is shown as an expense. Any amount not paid at the period-end is included in accruals.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives as follows:

Leasehold improvements	5 years
Fixtures and fittings	3 years
Office equipment	3 years
Computer equipment	3 years
Motor vehicle	3 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining surplus/deficit. Repairs and renewals are charged to the statement of financial performance when the expense is incurred.

Intangible asset

The intangible asset is stated at cost and is amortised over its expected useful life of 3 years.

Fees receivable

Fees receivable are carried at anticipated realisable value. Specific provision is made for debts considered doubtful for recovery. Bad debts are written off during the period in which they are identified.

Cash and Cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise current accounts and bank call deposits with original maturity of less than three months.

Notes to the financial statements for the year ended 31 December 2005 (cont.)

3. Property, plant and equipment

	Leasehold improvements	Furniture and fittings	Office equipment	Computer equipment	Motor vehicles	Capital work in progress	Total
In AED'000							
Cost							
At 1 January 2005	254	372	249	766	-	-	1,641
Additions	10,457	2,494	165	959	229	1,355	15,659
Disposal	(254)	(218)	-	(11)	-	-	(483)
At 31 December 2005	<u>10,457</u>	<u>2,648</u>	<u>414</u>	<u>1,714</u>	<u>229</u>	<u>1,355</u>	<u>16,817</u>
Depreciation							
At 1 January 2005	93	196	140	241	-	-	670
Charge for the year	1,594	667	100	362	32	-	2,755
Disposal	(123)	(140)	-	(11)	-	-	(274)
At 31 December 2005	<u>1,564</u>	<u>723</u>	<u>240</u>	<u>592</u>	<u>32</u>	<u>-</u>	<u>3,151</u>
Net book amount							
At 31 December 2005	<u>8,893</u>	<u>1,925</u>	<u>174</u>	<u>1,122</u>	<u>197</u>	<u>1,355</u>	<u>13,666</u>
At 31 December 2004	<u>161</u>	<u>176</u>	<u>109</u>	<u>525</u>	<u>-</u>	<u>-</u>	<u>971</u>
In USD'000							
Cost							
At 1 January 2005	69	102	68	209	-	-	448
Additions	2,851	680	45	261	62	369	4,268
Disposal	(70)	(59)	-	(4)	-	-	(133)
At 31 December 2005	<u>2,850</u>	<u>723</u>	<u>113</u>	<u>466</u>	<u>62</u>	<u>369</u>	<u>4,583</u>

Notes to the financial statements for the year ended 31 December 2005 (cont.)

3. Property, plant and equipment (cont.)

	Leasehold improvements	Furniture and fittings	Office equipment	Computer equipment	Motor vehicles	Capital work in progress	Total
In AED'000							
Depreciation							
At 1 January 2005	25	54	39	66	-	-	184
Charge for the year	432	183	27	99	9	-	750
Disposal	(34)	(38)	-	(3)	-	-	(75)
At 31 December 2005	<u>423</u>	<u>199</u>	<u>66</u>	<u>162</u>	<u>9</u>	<u>-</u>	<u>859</u>
Net book amount							
At 31 December 2005	<u>2,427</u>	<u>524</u>	<u>47</u>	<u>304</u>	<u>53</u>	<u>369</u>	<u>3,724</u>
At 31 December 2004	<u>44</u>	<u>48</u>	<u>29</u>	<u>143</u>	<u>-</u>	<u>-</u>	<u>264</u>

4. Intangible asset

	2005 AED'000	2005 US\$'000	2004 AED'000	2004 US\$'000
Purchase during the year	1,019	278	-	-
Amortisation during the year	<u>(113)</u>	<u>(31)</u>	<u>-</u>	<u>-</u>
At the end of the year	<u>906</u>	<u>247</u>	<u>-</u>	<u>-</u>

Intangible asset represents purchased software.

5. Prepayments and other receivables

	2005 AED'000	2005 US\$'000	2004 AED'000	2004 US\$'000
Prepayments	3,737	1,018	859	234
Other receivables	<u>907</u>	<u>247</u>	<u>226</u>	<u>62</u>
	<u>4,644</u>	<u>1,265</u>	<u>1,085</u>	<u>296</u>

Notes to the financial statements for the year ended 31 December 2005 (cont.)

6. Cash and cash equivalents

	2005 AED'000	2005 US\$'000	2004 AED'000	2004 US\$'000
Current account	11,593	3,159	2,025	551
Short term fixed deposits	<u>29,543</u>	<u>8,050</u>	<u>-</u>	<u>-</u>
	<u>41,136</u>	<u>11,209</u>	<u>2,025</u>	<u>551</u>

All bank balances are held with a bank licenced in the UAE. The year end interest rate on short term fixed deposits was 3.97% (2004: nil) per annum.

7. Accounts payable and accruals

	2005 AED'000	2005 US\$'000	2004 AED'000	2004 US\$'000
Payable to Government authority	29,228	7,964	-	-
Accounts payable	2,270	619	636	173
Unearned fees	850	232	361	98
Employee related accruals	408	111	317	86
Other accruals	<u>1,513</u>	<u>412</u>	<u>2,649</u>	<u>722</u>
	<u>34,269</u>	<u>9,338</u>	<u>3,963</u>	<u>1,079</u>

The amount payable to the Government authority represents the liability to the Dubai International Financial Centre Authority (DIFCA) mainly towards rent and leasehold improvements.

Notes to the financial statements for the year ended 31 December 2005 (cont.)

8. Provision for employees' end of service benefits

	2005 AED'000	2005 US\$'000	2004 AED'000	2004 US\$'000
At the beginning of the year	1,155	315	-	-
Transferred during the year/period	89	24	1,388	378
Provision made during the year (Note 10)	1,591	433	-	-
Payments during the year	(952)	(259)	(233)	(63)
At the end of the year/period	<u>1,883</u>	<u>513</u>	<u>1,155</u>	<u>315</u>

9. General and administration expenses

	Year ended 31 December 2005		13 September 2004 to 31 December 2004	
	AED'000	US\$'000	AED'000	US\$'000
Staff costs (Note 10)	36,426	9,925	6,835	1,862
Travel	756	206	302	82
Office rent	3,330	907	182	50
Marketing	1,067	290	378	103
Depreciation (Note 3)	2,755	750	152	42
Amortisation	113	31	-	-
Recruitment costs	3,168	864	731	199
Other	<u>6,042</u>	<u>1,647</u>	<u>584</u>	<u>159</u>
	<u>53,657</u>	<u>14,620</u>	<u>9,164</u>	<u>2,497</u>

Notes to the financial statements for the year ended 31 December 2005 (cont.)

10. Staff costs

	Year ended 31 December 2005		13 September 2004 to 31 December 2004	
	AED'000	US\$'000	AED'000	US\$'000
Salaries	21,892	5,965	4,414	1,203
Other benefits	12,943	3,527	2,058	560
Employees' end of service benefits (Note 8)	<u>1,591</u>	<u>433</u>	<u>363</u>	<u>99</u>
	<u>36,426</u>	<u>9,925</u>	<u>6,835</u>	<u>1,862</u>

11. Board of Directors expenses

	Year ended 31 December 2005		13 September 2004 to 31 December 2004	
	AED'000	US\$'000	AED'000	US\$'000
Board of Directors retainers	3,523	960	1,136	310
Attendance fees	2,319	632	603	164
Travel	1,427	388	420	114
Other	<u>1,997</u>	<u>544</u>	<u>234</u>	<u>64</u>
	<u>9,266</u>	<u>2,524</u>	<u>2,393</u>	<u>652</u>

12 Pre-operating expenditure

Pre-operating expenditure related to the period between 16 February 2002 and 12 September 2004.

13 Operating lease commitments

The lease commitments under non-cancellable operating leases are as follows:

	2005 AED'000	2005 US\$'000	2004 AED'000	2004 US\$'000
Not later than 1 year	3,754	1,023	-	-
Later than 1 year and no later than 5 years	<u>15,016</u>	<u>4,092</u>	-	-
	<u>18,770</u>	<u>5,115</u>	-	-

APPENDIX 2

Legislation relevant to the DIFC

Federal Law

- Article 121 of the UAE Constitution
- Federal Law No. 8 of 2004
- Federal Decree No. 35 of 2004

Dubai Law

- Dubai Law No. 9 of 2004 : The Law In Respect of the Dubai International Financial Centre
- Dubai Law No.12 of 2004 : The Law Establishing the Judicial Authority at the Dubai International Financial Centre

DIFC Laws

- Regulatory Law
- Data Protection Law
- Markets Law
- Law Regulating Islamic Financial Business
- Trust Law
- Companies Law
- Law on the Application of Civil and Commercial Laws
- Law on the Application of DIFC Laws
- Limited Liability Partnership Law
- Contract Law
- Insolvency Law
- Arbitration Law
- General Partnership Law
- The DIFC Courts Law
- Employment Law

- Law of Security
- Personal Property Law
- Law of Damages and Remedies
- Law of Implied Terms in Contract and Unfair Terms Law
- Law of Obligations

Rules

- General (GEN)
- Authorisation (AUT)
- Supervision (SUP)
- Enforcement (ENF)
- Conduct Of Business (COB)
- Prudential - Insurance Business (PIN)
- Prudential - Investment, Insurance Intermediation and Banking Business (PIB)
- Anti Money Laundering (AML)
- Islamic Financial Business (ISF)
- Offered Securities Rules (OSR)
- Authorised Markets Institution Rules (AMI)
- Recognition Rules (REC)
- Price Stabilisation Rules (PRS)
- Ancillary Service Providers (ASP)
- Prescribed Forms And Notices (PFN)
- Glossary (GLO)
- Data Protection Rules (DAT)

APPENDIX 3

Board and Senior Officers Remuneration Disclosure

DFSA was first established as an independent legal entity on 13 September 2004. Year to year comparative data will be reported from 2006.

The following table sets forth the total remuneration received or due and receivable for the fiscal year ended 31 December 2005, by the Board and Senior Officers of the DFSA.

Remuneration of the Chairman and Non Executive Board Members:

Remuneration bands	2005
Amounts in USD	Board Members
\$100,001 to \$150,000	4
\$150,001 to \$200,000	6
\$200,001 to \$250,000	0
\$250,001 to \$300,000	1
	11

The aggregate amount of total remuneration of non executive members of the Board shown above:	2005 (\$) 1,633,918
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Notes:

- (1) Remuneration is pro-rated based on actual duration of service during the year.
- (2) Remuneration of non executive Board members is comprised primarily of an annual retainer plus meeting attendance fees (for meetings of the full Board and its committees). Travel allowances are also paid. Board retainer fees during 2005 were US\$ 68,750 (Chairman US\$ 190,000). Board meeting attendance fees were US\$ 5,000 per meeting (Chairman US\$ 10,000).
- (3) Committee membership fees during 2005 were US\$ 5,000 per Committee (Committee Chairman fee US\$ 10,000). Committee meeting attendance fees were US\$ 2,000 per meeting.
- (4) The Chairman of the DFSA does not receive fees for membership of Committees or for attendance at Committee meetings. The Chief Executive of the DFSA does not receive fees for membership of the Board or its Committees or for attendance at Board meetings or Committee meetings.

Remuneration of the Chief Executive and Senior Officers:

Remuneration bands	2005
Amounts in USD	Executives
\$100,001 to \$200,000	2
\$200,001 to \$300,000	8
\$300,001 to \$400,000	2
\$400,001 to \$800,000	0
\$800,001 to \$900,000	1
	13
	2005
	\$

The aggregate amount of total remuneration of executives shown above: 3,932,100

Executives remuneration included in the above comprised:

	2005
	\$
Salaries and Performance Bonuses	3,006,252
Other emoluments and benefits	<u>925,848</u>

Notes:

- (1) Salaries and bonuses are pro-rated based on actual duration of service during the year.
- (2) Other emoluments and benefits include housing allowance, flight allowance, education allowance, premium paid for medical and life insurance and end of service accrual for the year 2005.

APPENDIX 4

Publications issued in 2005

A New Regulator for a New Financial Centre (the DFSA corporate brochure)

Authorisation - Your Questions Answered

Ancillary Service Providers - Your Questions Answered

Fees in the DIFC

Captive Insurers and Protected Cell Companies

DIFC Laws

Trust Law

DFSA Rulebook

Offered Securities Rules (OSR)

Authorised Markets Institution Rules (AMI)

Recognition Rules (REC)

Price Stabilisation Rules (PRS)

Consultation Papers

Price Stabilisation Rules - Consultation Paper No. 13

Rules for Listed Funds - Consultation Paper No. 14

Alternative Trading Systems – Consultation Paper No. 15

Policy Statement on Confidential Regulatory Information – Consultation Paper No. 16

Trust Law – Consultation Paper No. 17

Takeover Rules – Consultation Paper No. 18

Trust Companies Law – Consultation Paper No. 19

DFSA Draft Policy Statement on Start Up Entities – Consultation Paper No. 20

The Collective Investment Law – Consultation Paper No. 21

Trust Service Providers Rules – Consultation Paper No. 22

Media releases

DFSA Licenses EFG-Hermes UAE Limited as an AF
- 29 December 2005

DFSA Licenses EFG Bank as an AF
- 29 December 2005

DFSA Licenses Standard Bank Plc as an AF
- 18 December 2005

DFSA Registers Pannell Kerr Forster as an ASP
- 15 December 2005

DFSA Registers Rasmala Investments Holdings Limited as an ASP
- 14 December 2005

DFSA Licenses Rasmala Investments Limited as an AF
- 14 December 2005

DFSA Licenses ICICI Bank Limited as an AF
- 12 December 2005

DFSA Registers Clifford Chance LLP as an ASP
- 11 December 2005

DFSA Signs Regulatory Protocol with CFTC
- 2 December 2005

DFSA Licenses Man Investments Middle East as an AF
- 2 December 2005

DFSA Licenses Takaful Re Limited as an AF
- 2 December 2005

Dubai Police and DFSA sign MoU on cooperation and exchange of information
- 30 November 2005

DFSA Licenses Kotak Mahindra (UK) Limited as an AF
- 30 November 2005

DFSA Presents Enforcement Guidelines
- 15 November 2005

DIFC Trust Law Issued
- 14 November 2005

MoU Signed Between Dubai and Turkish Financial Regulators
- 9 November 2005

DFSA Issues Investment Law
- 16 October 2005

ESCA and DFSA Sign MoU on Cooperation and Exchange of Information
- 29 September 2005

DFSA Licenses Invesco Asset Management Limited as an AF
- 26 September 2005

DFSA Licenses DIFX as an AMI
- 20 September 2005

DFSA Registers Zurich International Life Limited as an ASP
- 20 September 2005

DFSA Licenses Banque Meespierson BGL SA as an AF
- 7 September 2005

DFSA Registers Maples and Calder as an ASP
- 28 August 2005

DFSA Increases Resources
- 15 August 2005

DFSA Issues Trust Law for Public Comment
- 14 August 2005

DFSA Licenses Persia International Bank Plc as an AF
- 3 August 2005

DFSA Licenses Barclays Bank PLC as AF
- 5 July 2005

DFSA Registers Swiss International Legal Consultants Limited as an ASP
- 30 July 2005

DFSA Welcomes Announcement of New DIFC Laws
- 28 June 2005

DFSA Registers KPMG LLP as an ASP
- 23 June 2005

DFSA Licenses Permal Investment Management Services Limited as AF
- 14 June 2005

DFSA Assists Law Enforcement Agencies in Closing Down Rogue Investment Firm
- 13 June 2005

DFSA Welcomes New CEO
- 25 May 2005

DFSA Announces New Rules
- 17 May 2005

DFSA Moves into The Gate
- 10 May 2005

DFSA Registers The Export-Import Bank of Korea as an ASP
- 27 April 2005

DFSA Becomes Member of IOSCO
- 17 April 2005

DFSA Registers Mourant & Co Limited as an ASP
- 11 April 2005

DFSA Chairman Welcomes Appointment of Chief Justices to DIFC Court
- 10 April 2005

DFSA Licenses Merrill Lynch Bank (Suisse) S.A as an AF
- 5 April 2005

Top International Regulator Takes Over at DFSA
- 20 March 2005

DFSA is to Appoint The Earl of Home to its Board
- 7 March 2005

DFSA Licenses Bank Sarasin-Alpen (ME) Limited as an AF
- 1 March 2005

DFSA Signs its First International MoUs
- 21 February 2005

DFSA Registers Alliance RE as ASP
- 17 January 2005



APPENDIX 5

Glossary

Accounting and Auditing Organization for Islamic Financial Institutions	AAOIFI
Authorised Firm	AF
Authorised Market Institution	AMI
Anti Money Laundering	AML
Ancillary Service Provider	ASP
Commodity Futures Trading Commission	CFTC
Dubai Financial Services Authority	DFSA
Dubai International Financial Centre	DIFC
DIFC Authority	DIFCA
Dubai International Financial Exchange	DIFX
Emirates Securities and Commodities Authority	ESCA
Financial Action Task Force	FATF
Financial Markets Tribunal	FMT
Financial Service Volunteer Corps	FSVC
International Association of Insurance Supervisors	IAIS
Islamic Financial Services Board	IFSB
International Organization of Securities Commissions	IOSCO
Memorandum of Understanding	MoU
Office of General Counsel	OGC
Regulatory Appeals Committee	RAC
DIFC Registrar of Companies	ROC
Suspicious Transaction Report	STR
United Arab Emirates	UAE

