

ANNUAL REPORT 2004



بنك دبي الإسلامي ش.م.ع
DUBAI ISLAMIC BANK PJSC

Board of Directors' Report on the Financial Year 2004

It gives me great pleasure to present to you the Board of Directors' report for the year 2004 on the Bank's activities and results for the financial year ended 31st December, 2004.

Praise be to Allah, and thanks to the sincerity of all employees, the past year was a great year for Dubai Islamic Bank by all measures, as we have achieved record financial results and significant achievements in all areas, which made the year 2004 a milestone in the Bank's history.

These results are in line with the high growth rate recorded by the UAE economy in both the oil and non-oil sectors. As regards the oil sector, the increasing world demand on oil and rise in the average price of the OPEC-basket barrel during 2004 increased the UAE oil revenue by over 30% compared to 2003. This has resulted in a growth in GDP at 15% from AED 293 billion in 2003 to AED 337 billion in 2004.

Other economic sectors grew considerably during 2004, including major industries, transport and communication, and water and electricity. The construction sector experienced a boom as a result of the huge real estate development projects and infrastructure projects executed throughout the UAE in 2004. This has impacted positively on the financial and banking sector, which in turn attained a high growth rate. The contribution of non-oil economic sectors, which has grown by 6.5% compared to 2003, has been expected to be at AED 212 billion, which represents 63% of the UAE's GDP.

This growth has also impacted other financial and economic indicators, as local liquidity is expected to increase by 12%, as a result of increase in bank deposits by 29% during the year. Credit is also expected to increase by more than 25% during the year, from AED 196 billion in 2003 to approximately AED 245 billion in 2004.

The significant achievements made by the Bank include financing arrangements which were the largest ever in Islamic banking history. These activities demonstrate the Bank's pioneering role and its capability to innovate and execute financial deals tailored to meet the growing needs of many sectors in the market at local and regional levels.

One of the major deals successfully concluded by the Bank in 2004 was to lead manage the world's largest Islamic Ijarah Sukuk issue of AED 1.0 billion for the Government of Dubai, represented by the Civil Aviation Department. In addition, the Bank obtained a mandate from Nakheel Real Estate Company for managing and financing an Ijarah of \$350 million. These deals have contributed in placing Dubai Islamic Bank at the first position worldwide for managing Islamic financing transactions according to the rating of renowned international magazine Euromoney.

In line with our strategy to diversify our activities and to assume a pioneering role in financing infrastructure and development projects in the UAE as well as the region as a whole, the Bank has since last year started to provide credit facilities to construction projects and has entered into agreements with leading local and regional companies.

As a result of the remarkable growth achieved by the Bank during the past few years and in order to realize its ambitious future growth plans that require availability of capital supporting this growth, the Extraordinary General Meeting of the Bank in its meeting on 26 June 2004 resolved to increase the authorized capital to AED 3.0 billion and the paid up capital by AED 500 million to AED 1.5 billion. This increase has impacted positively on the capital adequacy ratio of the Bank, which stood at 13.5% by the end of 2004 and exceeds the minimum capital ratio required by the UAE Central Bank, as well as the requirements of Basel Committee on Banking Supervision. In addition, Dubai Islamic Bank continued to enhance and upgrade its systems, processes and organizational structure to match the accelerated developments in the UAE banking environment that is characterized by fierce competition. Thus, the Bank has embarked on utilizing the state-of-the-art technology in the banking business in order to deliver its products and services to a wider customer base in a timely manner that suits their lifestyle. Thus, the Bank has upgraded its electronic banking services, which increased remarkably the number of users. The Bank has now 22 branches throughout the UAE. Some of these branches provide self-service banking facilities that operate round-the-clock, in addition to 81 ATMs.

The record growth in the Bank's profits and assets during 2004 reflects the result of efforts made by the Senior Management and the staff to successfully implement the Bank's strategy, with a view to diversify and upscale the

Bank's financial and investment activities and entering into new fields. Moreover, the Bank's Management place great emphasis on improving the standard of services and developing channels for attracting customers to new products and services which are tailored to suit their lifestyle.

Undoubtedly, these accomplishments pose further challenges to the Bank in its endeavor to maintain and accelerate its growth. Thus, during 2005 and the years to come, the Bank endeavors to expand its activities and widen its operations to cover regional markets by opening new branches or representative offices; by concluding new strategic alliances and partnerships with major local and international companies and by launching specialized and diversified investment portfolios with an aim to enhance shareholder's value.

The policy of Emiratization and investment to develop the UAE national human resources, by boosting their proficiency and skills through programs for development and training, is very high on the Bank's priority and strategy. Due to the efforts exerted by the Bank to further enhance its image as a pioneering institution that operates professionally in providing career opportunities, the Bank has been very successful in attracting and retaining young nationals, aspiring for a career at the Bank. The percentage of UAE national employees now is estimated at 40% of the Bank's total staff, one of the highest in the UAE banking sector.

During 2004, Dubai Islamic Bank has been honoured with many regional and international awards presented by major specialized institutions. These include the J.P. Morgan Chase Award for Operations Quality, the Award for Innovation in Islamic Banking in the GCC from the Bankers Middle East Magazine, the Best Retail Bank and the Best Islamic Bank for Women Banking Services Awards from the Islamic Finance Weekly Magazine published by Euromoney.

As a result of its operations, the Bank has recorded a 43% growth in its total revenue at AED 1.47 billion in 2004 compared to AED1.02 billion in the previous year. The Profit Attributable to Shareholders increased by 97% at AED 461 million in 2004 compared to AED 234 million in 2003.

In addition, the Bank's assets increased to AED 30.6 billion, at a growth rate of 34%, compared to AED 22.8 billion for the same period in 2003, due to the significant increase in the Bank's finance and investment portfolio, which increased by 43% at AED 17.5 billion in 2004, compared to AED 12.3 billion in 2003.

At the same time, customers' deposits have significantly increased by 30% to AED 26.3 billion in 2004 as against AED 20.2 billion in the previous year. The Bank's net profits (including depositors' share) stood at AED 1.02 billion in 2004, with a growth of 36% against AED 751 million in 2003. The total shareholders equity, which include dividend proposed for distribution amongst shareholders as at the end of December 2004 increased by 76% to AED 3.0 billion compared to AED 1.7 billion as at the end of December 2003.

Based on these results, the Bank's Board of Directors have recommended distribution of cash dividend amongst shareholders at 20%.

Annual report of the Fatwa and Shariah Supervisory Board on The Bank's business for 2004

1- Fatwa and resolutions:

The Board provided answers to the questions and queries it received from the various departments of the Bank, and issued the appropriate fatwa and resolutions thereon. These fatwa, were circulated for implementation.

2- Structuring of Financing and the preparation of its documents:

The Board reviewed all the transactions presented to it, and prepared, revised and approved the structures of their financing, their contracts and documentation.

3- Investment funds and portfolios:

Dubai Islamic Bank is one of the major players and a leader in launching, participating in or managing investment funds and portfolios, such as real estate funds and portfolios, shipping and aircrafts funds.

The Board reviewed the structures of these funds and portfolios, the systems of their working, the negotiation of their units and the method of their management and ensured that they complied with Shariah principles and the Board's fatwa.

4- Sukuk issuance:

Dubai Islamic Bank is a major player in the issuance and management of all kinds of investment Sukuks, and in participating in them. The Board prepared, revised and approved the structures and documents of these Sukuks, and their issuance terms and conditions. In addition, the Board ensured that these Sukuk do not violate Islamic Shariah principles and the Board's fatwas.

5- Syndicated finance:

The Board reviewed the syndicated finance transactions that were presented to it, and prepared, revised and approved their respective contracts and documents after having ascertained that they did not violate the principles of Islamic Shariah and the Board's fatwas.

6- Training:

The only guarantee of the correctness of the implementation of the Islamic Shariah principles and the Board's fatwas is the training of the Bank's staff on the principles of Islamic financial industry and the Board's fatwa. Such training is intended to provide the Bank's staff with sufficient banking experience to apply and market different Islamic products. The Fatwa and Shariah Supervision Board prepared an integrated plan for the Shariah training which the Bank Management has been quick to adopt, something that led to minimizing instances of violations.

7- Product development:

The Board, in collaboration with the Bank's different project leaders developed the current products and launched new products that enable the Bank to keep pace with the progress witnessed by the Islamic financial industry, with the purpose of achieving the interests of customers and meeting their changing needs. The Bank's Management has started using these products efficiently and smoothly.

8- Shariah supervision and auditing:

8-1 The Board reviewed the Shariah supervision and auditing report concerning the Bank's operations executed during the year, and commented on them. The Bank's Management expressed sincere desire to comply with the

Board's directives.

8-2 The Board set aside what it deemed profits made from transactions not complying with Shariah beyond any doubt without an acceptable excuse by the violator.

9- Banking services fees:

The Board reviewed the Shariah auditing report concerning banking services provided by the Bank during the year, and the fees charged on such services. The Board found that these fees and charges agreed with what had been decided by the Board.

10- Review of the books and records:

The Board reviewed the Bank's books, records and documents it requested to review, and obtained the data and information it requested in order to be able to perform the duty of Shariah supervision and auditing.

11- Balance sheet review:

The Board reviewed the Bank's balance sheet and the notes attached thereto and the board is of the view that:

11-1 The balance sheet, according to the notes and statements provided by the Bank's Management, fairly represents the Bank's assets and income.

11-2 The distribution of profits amongst depositors and shareholders has been made in accordance with the Shariah principles laid down by the Board. At the directive of Bank's management, the IT system will be updated to reflect these bases.

11-3 The Board, pursuant to the Bank's articles of association, reviewed the calculation of zakat that the Bank should pay out on the shareholders funds retained with the Bank pursuant to Islamic Shariah principles. As regards the zakat of the Bank's capital, it is the responsibility of the shareholders. The Board calculated the amount of zakat due on a share to inform the shareholders accordingly.

12- The Board's opinion:

While it confirms that the responsibility for the implementation of Shariah principles and the Board's fatwa in all activities of the Bank are basically that of the Bank's Management, the Board would state that within the cases presented to it and the information obtained by it; and pursuant to the auditing carried and comments made by it; and based on the positive response of the Bank's Management and its willingness to comply with these comments, the activities and transactions performed by the Bank during the year in whole comply with Islamic Shariah principles and the Board's fatwa.

Members of the Fatwa and Shariah Supervisory Board

Prof. Dr. Hussein Hamid Hassan

Prof. Dr. Ali Mohioaldin Al Karadaghi

Sheikh Mohammed Abdul Razak Al Sedeiq

Sheikh Mohammed Abdul Hakeim Zuair

SHARES' ZAKAT FOR THE YEAR 2004

Pursuant to the provisions of Article (76) of the Bank's Articles of Association regarding the calculation of Shares' Zakat; and in order to facilitate the matter for our valued shareholders, The Bank's Fatwa and Shariah Supervisory Board would like to inform you of the method of calculating the Zakat on your shares, which is as follows:

1- The Zakat due on shares purchased for the purpose of trading in them i.e. for selling them when their prices go up, which shall be calculated as follows:

Zakat Pool per share for the year = the market value of the share + the share dividend distributed for the year.

Zakat per share = Zakat pool per share x 2.5775%*

Total Zakat due on your shares = Zakat per share minus 12 Fils** x number of shares

2- Zakat payable according to Islamic Shariah per share that are purchased for acquisition (i.e. for benefiting from their annual return and not for trading in them) is calculated as follows:

Your Shares' Zakat = Total dividends distributed for this year x 10%

3- The Zakat for shares subscribed into during the year 2004 is paid in the next year after the elapse of one Hejri year.

*Amount of Zakat for Hejri year is 2.5% and the Gregorian year is 2.5775%

**Represent portion of a share Zakat that the Bank has paid out on its reserves and therefore should be deducted from the Zakat per share payable by a shareholder.

ZAKAT'S CHANNELS AND INTEREST-FREE LOANS

In accordance with the Shariah, the Zakat fund activities during the year were restricted to the payment of Zakat to charity organizations, which are duly licensed by the official authority of the U.A.E.

The total number of Interest-free Loan(s) cases approved for those entitled to them during the year was 1,496 cases, for a total amount of AED 12,275,000 according to the following table.

Interest-free Loan	Number of Cases	AED
Marriage	703	5,615,000
Medical treatment	335	2,698,000
Debts repayment	458	3,962,000
Total	1,496	12,275,000

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

We have audited the accompanying consolidated balance sheet of Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries as of 31 December 2004 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Bank's undertaking to operate in accordance with Islamic Shariah rules and principles are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries as of 31 December 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards and the Shariah rules and principles as determined by the Shariah Supervisory Board of the Bank.

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

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Signed by:
Edward B. Quinlan
Registration No. 93

29 January 2005

Dubai, United Arab Emirates

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED INCOME STATEMENT - Year ended 31 December 2004

	Notes	2004 AED'000	2003 AED'000
INCOME			
Income from Islamic financing and investing assets	3	1,016,573	709,067
Income from international murabahat, short term		154,460	117,397
Income from investment properties	4	145,368	98,702
Income from sale of development properties, net	5	33,643	-
Commissions, fees and foreign exchange income	6	112,844	86,160
Other operating income		7,130	13,430
TOTAL INCOME		1,470,018	1,024,756
EXPENSES			
General and administrative expenses	7	(335,619)	(286,266)
Depreciation of investment properties	14	(27,887)	(28,304)
(Provisions) reversals for impairment	8	(88,716)	44,829
TOTAL EXPENSES		(452,222)	(269,741)
Net income for the year before minority interest and depositors' share		1,017,796	755,015
Minority interest		-	(4,351)
Net income for the year before depositors' share		1,017,796	750,664
Depositors' share of profits	9	(556,763)	(516,208)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS		461,033	234,456
Earning per share (Dirhams)	10	4.00	2.32

The accompanying notes form an integral part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED BALANCE SHEET - At 31 December 2004

	Notes	2004 AED'000	2003 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	11	2,067,210	1,244,775
Balances and deposits with banks		225,759	139,892
International murabahat, short term		7,502,571	6,949,435
Islamic financing and investing assets	12	17,487,113	12,236,430
Development properties	13	216,518	66,842
Investment properties	14	1,138,379	1,185,405
Other investments	15	1,371,630	544,627
Prepayments and other assets	17	477,726	293,486
Fixed assets	18	126,455	117,427
Total assets		30,613,361	22,778,319
LIABILITIES			
Customers' deposits	19	24,941,016	19,883,253
Due to banks and other financial institutions	20	1,393,178	320,736
Other liabilities	21	1,277,684	858,507
Accrued zakat	22	14,877	13,375
Total liabilities		27,626,755	21,075,871
Minority interest	23	10	4,268
Shareholders' equity			
Share capital	24	1,500,000	1,000,000
Treasury shares	32	(8,226)	-
Statutory reserve	25	625,566	79,463
Donated land reserve	25	284,701	284,701
General reserve	25	280,000	180,000
Retained earnings		5,378	4,016
Proposed dividends	26	299,177	150,000
Total shareholders' equity		2,986,596	1,698,180
Total liabilities and shareholders' equity		30,613,361	22,778,319
Commitments and contingent liabilities	27	2,785,261	1,560,834

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors dated 29 January 2005.

Dr. Mohammad K. Kharbash
Chairman

Sultan Saeed Al Mansouri
Deputy Chairman

Butti Khalifah Al-Falasi
Chief Executive Officer

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS - Year ended 31 December 2004

	Notes	2004 AED'000	2003 AED'000
OPERATING ACTIVITIES			
Profit attributable to shareholders		461,033	234,456
Adjustments for:			
Provisions (reversals) for impairment		88,716	(44,829)
Depreciation of investment properties		27,887	28,304
Depreciation of fixed assets		22,671	20,237
		<hr/> 600,307	<hr/> 238,168
Changes in operating assets and liabilities			
Investment deposits with banks		55,095	73,827
Islamic financing and investing assets		(5,313,908)	(2,075,871)
Prepayments and other assets		(184,240)	8,571
Customers' deposits		5,057,763	2,896,444
Due to banks and other financial institutions		1,072,442	78,330
Other liabilities		416,327	80,171
Accrued Zakat		(10,039)	(4,618)
		<hr/> 1,693,747	<hr/> 1,295,022
INVESTING ACTIVITIES			
Movement in investment properties, net		19,139	176,382
Movement in development properties, net		(149,676)	(66,842)
Movement in other investments, net		(852,494)	(284,509)
Movement in fixed assets, net		(31,699)	(18,357)
Minority interest		(4,258)	(4,254)
		<hr/> (1,018,988)	<hr/> (197,580)
FINANCING ACTIVITIES			
Dividends paid		(150,000)	(100,000)
Issue of shares		1,000,000	-
Shares acquired		(8,226)	-
		<hr/> 841,774	<hr/> (100,000)
INCREASE IN CASH AND CASH EQUIVALENTS			
		<hr/> 1,516,533	<hr/> 997,442
Cash and cash equivalents at the beginning of the year	28	<hr/> 8,232,529	<hr/> 7,235,087
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28	<hr/> 9,749,062	<hr/> 8,232,529

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Year ended 31 December 2004

	Share capital AED'000	Treasury Shares AED'000	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Retained earnings AED'000	Proposed dividends AED'000	Total AED'000
As of 31 December 2002	1,000,000	-	56,017	284,701	130,000	3,268	100,000	1,573,986
Profit for the year	-	-	-	-	-	234,456	-	234,456
Transfer to reserves	-	-	23,446	-	50,000	(73,446)	-	-
Dividends paid – 2002	-	-	-	-	-	-	(100,000)	(100,000)
Zakat	-	-	-	-	-	(7,412)	-	(7,412)
Directors' remuneration	-	-	-	-	-	(2,850)	-	(2,850)
Proposed dividends	-	-	-	-	-	(150,000)	150,000	-
As of 31 December 2003	1,000,000	-	79,463	284,701	180,000	4,016	150,000	1,698,180
Issue of shares	500,000	-	500,000	-	-	-	-	1,000,000
Shares acquired (Note 32)	-	(8,226)	-	-	-	-	-	(8,226)
Profit for the year	-	-	-	-	-	461,033	-	461,033
Transfer to reserves	-	-	46,103	-	100,000	(146,103)	-	-
Dividends paid – 2003	-	-	-	-	-	-	(150,000)	(150,000)
Zakat	-	-	-	-	-	(11,541)	-	(11,541)
Directors' remuneration	-	-	-	-	-	(2,850)	-	(2,850)
Proposed dividends	-	-	-	-	-	(299,177)	299,177	-
As of 31 December 2004	1,500,000	(8,226)	625,566	284,701	280,000	5,378	299,177	2,986,596

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

1-ACTIVITIES

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

In addition to its main office in Dubai, the Bank operates through 22 branches (2003: 19 branches) in the U.A.E. The accompanying consolidated financial statements combine the activities of the Bank's head office, its branches and the following subsidiaries, associates and joint ventures:

Subsidiaries	Principal activity	Country of incorporation	Registered percentage of equity	
			2004	2003
1. Deyaar P.S.C. (formally Global Real Estate Development P.S.C)	Real estate development	UAE	95.5%	95.5%
2. Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	UAE	98.0%	98.0%
3. Islamic Financial Services L.L.C.	Brokerage services	UAE	95.5%	95.5%
4. DIB Printing Press L.L.C.	Printing	UAE	99.5%	99.5%
5. Al Tanmyah Services L.L.C.	Labour services	UAE	99.5%	99.5%
6. Islamic Investment Company P.S.C.	Financing & investing	UAE	95.5%	95.5%
7. Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	UAE	75.5%	75.5%
8. United Mineral Water P.S.C.	Bottling of natural water	Egypt	88.2%	88.2%
9. Gulf Atlantic FZ L.L.C.	Investments	UAE	100.0%	100.0%
10. Al Islami Trade Finance FZ L.L.C.	Investments	UAE	100.0%	-
11. Al Islami Oceanic Shipping Co FZ L.L.C	Investments	UAE	100.0%	-
12. DIB Lease One Ltd.	Investments	Bahamas	100.0%	-
13. DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	-
14. Zone One Real Estate Management Co.	Investments in real estate	Cayman Islands	100.0%	-
15. Zone Two Real Estate Management Co.	Investments in real estate	Cayman Islands	100.0%	-

In addition to the registered ownership described above, the remaining equity in the entities 1 to 7 is also held by the Bank through nominee arrangements.

Associates

16. General Gypsum Company	Gypsum manufacture	UAE	-	28.7%
17. Dubai Islamic Insurance Co. (AMAN)	Islamic insurance	UAE	25.0%	25.0%
18. Bosnia International Bank	Banking	Bosnia	27.3%	27.3%
19. Liquidity Management Center (B.S.C)	Brokers	Bahrain	25.0%	25.0%
20. Emirates National Securitization Corporation	Securitization	Cayman Islands	35.0%	-

Joint ventures

21. Al Bustan Center Company L.L.C.	Rental of apartments and shops	UAE	50%	50%
22. Tamweel L.L.C	Real estate financing	UAE	50%	50%
23. GENYX L.L.C.	Training	UAE	50%	0%
24. Gulf Tankers L.L.C.	Cargo and transport	UAE	50%	50%

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

1-ACTIVITIES - continued

The entities listed under 6 and 24 did not conduct any operations during the current or previous years. The entity listed under 16 above, was sold during the year.

In the previous year, Al Bustan Center Company L.L.C. was dealt with in the consolidated financial statements as a subsidiary. Management of the Bank considers the Bank's involvement in the company is now that of a partner in a joint venture. As investments in joint ventures are accounted under the proportionate consolidation method, this has had no effect on the results for the year.

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

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

As of 31 December 2004 the Bank and its subsidiaries employed 1,533 employees (2003: 1,665 employees).

2- SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with Standards issued, or adopted by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee, Shariah rules and principles as determined by the Bank's Shariah Supervisory Board and applicable requirements of UAE laws.

The consolidated financial statements have been presented in UAE Dirhams.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of available for sale investments and forward foreign exchange contracts.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

Basis of consolidation

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

All significant inter-company transactions are eliminated upon consolidation.

Definitions

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

Murabaha

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

2- SIGNIFICANT ACCOUNTING POLICIES - continued

Istisna'a

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

Ijarah

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

Musharaka

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

Mudaraba

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

Wakala

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

Revenue recognition

Murabaha

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

Istisna'a

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

Ijarah

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

Musharaka

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

Mudaraba

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

Sale of property

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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

Fee and commission income

Fee and commission income is recognised when earned.

Rental income

Rental income is recognized on an accrual basis.

Dividends

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

Cost of sale of property

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

Balances and deposits with banks

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

International Murabahat, short term

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

Islamic financing and investing assets

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

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

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

Development Properties

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

Investment properties

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Other investments

Investments in joint ventures

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

Investments in associates

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

Available-for-sale investments

Available for sale investments are initially recognized at cost, being the fair value of the consideration given including all acquisition costs associated with the investment.

Subsequent to initial recognition, available for sale investments are measured at fair value. Investments whose fair value cannot be reliably measured are carried at cost less any impairment losses. Gains or losses arising from a change in the fair value of investments classified as available for sale are recognized directly in the consolidated income statement.

Held to maturity

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

Fixed assets

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

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

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

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

Trade and settlement date accounting

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

Forfeited income

According to the Bank's Shariah Supervisory Board, the Bank is required to identify any income deemed to be derived from sources not acceptable under Islamic regulation and to set aside such amount in a separate account used to pay for local social activities (forfeited income).

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Provisions

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

Deposits

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

Employees' end of service benefits

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

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

Zakat

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

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

Allocation of profit

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

Cash and cash equivalents

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

Fiduciary assets

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

Offsetting

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

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount in the consolidated income statement.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Forward foreign exchange contracts

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

As the forward foreign exchange contracts are entered into to hedge changes in fair values of specific assets and liabilities, any gain or loss from remeasuring the hedging instrument to fair value as well as related changes in the fair value of the item being hedged, is recognized immediately in the income statement.

Treasury shares

Treasury shares consist of the Bank's own shares that have been acquired by the Bank under its Employee Stock Ownership Plan and not yet reissued or cancelled. These shares are accounted for using the cost method. Under the cost method, the average cost of the shares is shown as a deduction from total shareholders' equity. When these shares are reissued, gains, if any, are credited to a separate capital reserve in shareholders' equity, which is non-distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are paid on these shares.

Foreign currencies

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

Fair values

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

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

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

3 - INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS

	2004 AED'000	2003 AED'000
Financing		
Commodities murabahat	273,560	249,478
Vehicles murabahat	151,167	132,754
Istisna'a	136,436	148,477
Ijara	99,577	42,815
	660,740	573,524
Investing		
Musharakat	75,077	58,156
Mudarabat	33,156	20,400
Wakalat	10,329	18,098
Investment funds	53,428	18,185
Others	12,312	6,285
	184,302	121,124

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

3 - INCOME FROM ISLAMIC FINANCING AND INVESTING ASSETS - continued

	2004 AED'000	2003 AED'000
Investments in companies		
Dividend income	14,434	9,513
Gain on available for sale investments	157,097	4,906
	<u>171,531</u>	<u>14,419</u>
Total income from Islamic financing and investing assets	<u>1,016,573</u>	<u>709,067</u>

Others amounting to AED 12,312,000 (2003: AED 6,285,000) are presented net of forfeited income of AED 4,502,000 (2003: AED 658,000).

4 - INCOME FROM INVESTMENT PROPERTIES

	2004 AED'000	2003 AED'000
Rental income	52,642	72,611
Gain on sale of investment properties	84,204	18,109
Others	8,522	7,982
	<u>145,368</u>	<u>98,702</u>

5 - INCOME FROM SALE OF DEVELOPMENT PROPERTIES

	2004 AED'000	2003 AED'000
Sale	189,317	-
Cost of sale	(155,674)	-
	<u>33,643</u>	<u>-</u>

6 - COMMISSIONS, FEES AND FOREIGN EXCHANGE INCOME

	2004 AED'000	2003 AED'000
Commissions and fees	91,822	53,246
Foreign exchange gains	21,022	32,914
	<u>112,844</u>	<u>86,160</u>

7 - GENERAL AND ADMINISTRATIVE EXPENSES

	2004 AED'000	2003 AED'000
Payroll and payroll-related expenses	212,033	168,625
Operating expenses	59,308	42,890
Administrative expenses	41,607	55,380
Depreciation of fixed assets	22,671	16,794
Zakat on provision for impairment	-	2,577
	<u>335,619</u>	<u>286,266</u>

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

8 - PROVISIONS (REVERSALS) FOR IMPAIRMENT

	2004 AED'000	2003 AED'000
Financing and investing assets	63,225	(44,829)
Others	25,491	-
	88,716	(44,829)

9 - DEPOSITORS' SHARE OF PROFITS

	2004 AED'000	2003 AED'000
Share for the year	556,763	516,208
Less: Pertaining to depositors' profit equalisation provision (Note 29)	(5,524)	(3,993)
Transfer from / (to) depositors' profit equalisation provision (Note 29)	2,100	(34,183)
Depositors' payable share of profit, net (Note 21)	553,339	478,032

10 - EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to the shareholders' for the year, net of directors' remuneration, of AED 458,183,000 (2003: AED 231,606,000) by the weighted average number of shares outstanding during the year of 114,520,548 of AED 10 each (2003: 100,000,000 of AED 10 each).

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

	2004 AED'000	2003 AED'000
Cash in hand	233,218	183,968
Balances with Central Bank:		
Current accounts	540,416	65,092
Reserve requirements	1,293,576	995,715
	2,067,210	1,244,775

12 - ISLAMIC FINANCING AND INVESTING ASSETS

	2004 AED'000	2003 AED'000
Financing		
Commodities Murabahat	3,578,551	3,076,266
International Murabahat	2,772,411	1,101,262
Vehicles Murabahat	2,391,242	1,836,003
Real Estate Murabahat	923,320	775,457
Total Murabahat	9,665,524	6,788,988
Istisna'a	2,298,274	2,492,734
Ijara	4,702,097	2,537,894
Others	18,787	22,000
	16,684,682	11,841,616

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

12 - ISLAMIC FINANCING AND INVESTING ASSETS - continued

	2004 AED'000	2003 AED'000
Less: Deferred income	(1,375,297)	(1,318,342)
Contractors and consultants' Istisna'a contracts	(409,828)	(333,930)
Down payments from Istisna'a customers	(9,742)	(16,675)
Provision for impairment	(661,948)	(602,127)
	14,227,867	9,570,542
Investing		
Musharakat in buildings	1,709,610	1,288,638
Mudarabat	1,323,484	947,685
Wakalat	289,148	489,157
	3,322,242	2,725,480
Less: Provision for impairment	(62,996)	(59,592)
	3,259,246	2,665,888
Total Islamic financing and investing assets, net	17,487,113	12,236,430

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

	2004 AED'000	2003 AED'000
Within U.A.E.	16,280,266	12,581,158
Outside U.A.E.	3,726,658	1,985,938
	20,006,924	14,567,096

Islamic financing & investing assets by industry groups are as follows:

Financial institutions	1,432,294	236,178
Real estate	6,439,081	5,456,906
Trade	2,812,415	2,609,638
Government	2,799,965	777,502
Manufacturing and services	3,626,226	3,106,754
Personal financing and others	2,896,943	2,380,118
	20,006,924	14,567,096

Movements in the provision for impairment are as follows:

	2004 AED'000	2003 AED'000
Balance, beginning of the year	661,719	710,328
Charge for the year (Note 8)	63,225	-
Write-offs	-	(3,780)
Reversals (Note 8)	-	(44,829)
Balance, end of the year	724,944	661,719

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

13 - DEVELOPMENT PROPERTIES

	2004 AED'000	2003 AED'000
Balance, beginning of year	66,842	-
Additions during the year	208,042	66,842
Transfer from investment properties	97,308	-
Less: Transferred to cost of sale of properties (note 5)	(155,674)	-
	<hr/>	<hr/>
Balance, end of year	216,518	66,842
	<hr/> <hr/>	<hr/> <hr/>

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

14 - INVESTMENT PROPERTIES

	2004 AED'000	2003 AED'000
Land		
In U.A.E.	503,376	615,815
Outside U.A.E.	301,364	61,920
	<hr/>	<hr/>
	804,740	677,735
Less: Provision for impairment	(300)	(300)
	<hr/>	<hr/>
	804,440	677,435
	<hr/>	<hr/>
Other real estate		
In U.A.E.	523,628	608,669
Outside U.A.E.	2,713	73,606
	<hr/>	<hr/>
	526,341	682,275
Less: Accumulated depreciation and provision for impairment	(192,402)	(174,305)
	<hr/>	<hr/>
	333,939	507,970
	<hr/>	<hr/>
Investment properties, net	1,138,379	1,185,405
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the Bank's investment properties as of 31 December 2004 is AED 1,752,940,000 (2003: AED 1,174,268,000) as per valuations conducted by independent valuers and the Bank's real estate department.

Land in the UAE includes land valued at AED 284,701,000 donated by the Government for the sole benefit of the shareholders.

The movement in investment properties is as follows:

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

14 - INVESTMENT PROPERTIES - continued

	Land	Other Real Estate	Total
	AED '000	AED '000	AED '000
Cost:			
Balance, beginning of the year	677,734	682,276	1,360,010
Additions during the year	331,705	6,108	337,813
Disposals during the year	(182,725)	(86,709)	(269,434)
Transfers to development properties	(21,974)	(75,334)	(97,308)
Balance, end of the year	804,740	526,341	1,331,081
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	174,305	174,605
Charge for the year	-	27,887	27,887
Relating to disposals	-	(9,790)	(9,790)
Balance, end of the year	300	192,402	192,702
Net book value, end of the year	804,440	333,939	1,138,379

15 - OTHER INVESTMENTS

	2004 AED'000	2003 AED'000
Held-to-maturity investments	50,103	-
Available for sale investments	1,247,961	503,994
Investments in associates	73,566	40,633
	1,371,630	544,627

Held-to-maturity investments

Held-to-maturity investments at the year end are investments in Islamic Sukuk. These investments mature over a period of two years.

Investments available for sale are as follows:

	2004 AED'000	2003 AED'000
Quoted securities	330,123	131,611
Unquoted securities:		
Local	2,910	950
Foreign	928,416	386,842
	931,326	387,792
Less: Provision for impairment	(13,488)	(15,409)
	917,838	372,383
	1,247,961	503,994

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

15 - OTHER INVESTMENTS - continued

Investments in associated companies comprise:

	2004 AED'000	2003 AED'000
Share in capital	77,375	40,354
Share of (losses)/profits	(3,809)	279
	73,566	40,633

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

16 - INVESTMENTS IN JOINT VENTURES

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

	2004 AED'000	2003 AED'000
Cash and balances with banks	57,342	3,634
International Murabihat, short term	-	144,894
Development properties	10,938	-
Prepayments and other assets	146,367	52
Fixed assets	7,497	576
Total assets	222,144	149,156
Other liabilities	62,283	-
Capital and reserves	159,861	149,156
Total liabilities and equity	222,144	149,156
Profit (loss) for the year / period	24,949	(844)

17 - PREPAYMENTS AND OTHER ASSETS

	2004 AED'000	2003 AED'000
Checks sent for collection	157,396	66,666
Other income receivable	65,214	28,926
Advances on purchase of properties	40,906	-
Rental income receivable	39,834	40,304
Advances to contractors	27,442	31,195
Prepaid expenses	24,714	29,514
Over drawn current accounts, net	16,808	38,528
Qard Hassan (profit-free loans)	3,996	3,996
Inventories	12,744	15,153
Others	88,672	39,204
	477,726	293,486

Overdrawn current accounts are stated net of provision for impairment of AED 19,600,000 (2003: AED 15,600,000).

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

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

18 - FIXED ASSETS

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Construction in progress AED'000	Total AED'000
Cost:							
As of 1 January 2004	50,993	89,211	92,188	41,190	4,994	7,296	285,872
Additions	3,758	1,271	24,230	3,270	1,626	9,254	43,409
Disposals	(3,403)	(8,493)	(11,961)	-	(547)	(143)	(24,547)
Transfers	-	-	3,804	-	-	(3,804)	-
Balance as of 31 December 2004	51,348	81,989	108,261	44,460	6,073	12,603	304,734
Accumulated depreciation:							
As of 1 January 2004	22,744	50,191	57,515	33,751	4,244	-	168,445
Charge for the year	1,859	5,005	11,699	3,696	412	-	22,671
Disposals	(149)	(3,293)	(8,926)	-	(469)	-	(12,837)
Balance as of 31 December 2004	24,454	51,903	60,288	37,447	4,187	-	178,279
Net book value and carrying value:							
31 December 2004	26,894	30,086	47,973	7,013	1,886	12,603	126,455
31 December 2003	28,249	39,020	34,673	7,439	750	7,296	117,427

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

19 - CUSTOMERS' DEPOSITS

	2004 AED'000	2003 AED'000
a) By type:		
Current accounts	4,762,526	3,291,478
Saving accounts	3,778,598	3,185,930
Investment deposits	16,100,128	13,133,625
Margins	173,662	146,206
Profit equalisation provision (Note 29)	126,102	126,014
	24,941,016	19,883,253
b) By maturity:		
Demand deposits	8,840,888	6,749,628
Deposits due within 3 months	6,826,450	4,926,099
Deposits due within 6 months	4,199,553	3,606,573
Deposits due within 1 year	5,074,125	4,600,953
	24,941,016	19,883,253
c) By geographical areas:		
Within U.A.E.	24,941,016	19,883,253
Others	-	-
	24,941,016	19,883,253

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

19 - CUSTOMERS' DEPOSITS - continued

	2004 AED'000	2003 AED'000
d) By currency:		
U.A.E. Dirham	24,539,418	19,538,058
Other currencies, mainly U.S Dollars	401,598	345,195
	24,941,016	19,883,253

20 - DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2004 AED'000	2003 AED'000
Current accounts	23,104	20,675
Investment deposits	1,370,074	300,061
	1,393,178	320,736

21 - OTHER LIABILITIES

	2004 AED'000	2003 AED'000
Depositors' share of profit (Note 9)	553,339	478,032
Checks received for collection	187,763	94,948
Bankers checks	138,602	89,801
Sundry deposits	102,582	40,269
Payable to contractors	46,608	2,626
Rent received in advance	39,776	37,760
Provision for employees' end-of-service benefits	24,805	21,901
Retentions payable	16,573	2,502
Unclaimed dividends	15,198	13,259
Directors' remuneration	2,850	2,850
Others	149,588	74,559
	1,277,684	858,507

22 - ACCRUED ZAKAT

	2004 AED'000	2003 AED'000
Zakat on shareholders' equity (except for share capital)	11,541	7,412
Zakat on provision for impairment	-	2,577
Zakat on profit equalization provision (Note 29)	3,336	3,386
	14,877	13,375

23 - MINORITY INTEREST

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

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

24 - SHARE CAPITAL

	2004 AED'000	2003 AED'000
Authorised capital 300,000,000 shares of AED 10 each (2003: 100,000,000 shares of AED 10 each)	3,000,000	1,000,000
Issued and fully paid-up 150,000,000 shares of AED 10 each (2003: 100,000,000 shares of AED 10 each)	1,500,000	1,000,000

At an Extraordinary General Meeting of the shareholders of the Bank held on 26 June 2004, the shareholders resolved to increase the Bank's share capital to AED 3,000,000,000 over a period of five years. During the year, the Board of Directors authorized the issue of 50,000,000 shares as a rights issue at a premium of AED 10 per share.

25 - RESERVES

Statutory reserve

Article 192 of the UAE Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution.

The statutory reserve includes AED 500 million being the premium collected at AED 10 per share on the rights issue during the year.

Donated land reserve

The Government of Dubai has donated certain unrestricted land for the sole benefit of the shareholders. Such land is included in investment properties (Note 14). The donated land reserve represented the fair value of the land at the time of the donation.

General reserve

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

26 - PROPOSED DIVIDENDS

The Board of Directors has proposed a cash dividend amounting to AED 299,177,000 (excluding treasury shares) at AED 2 per share of AED 10 each (2003: AED 150,000,000 at AED 1.50 per share of AED 10 each). This is subject to the approval of the shareholders at the annual general meeting.

27 - CONTINGENT LIABILITIES AND COMMITMENTS

Financing-related financial instruments

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

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

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

27 - CONTINGENT LIABILITIES AND COMMITMENTS - continued

	2004 AED'000	2003 AED'000
Contingent liabilities:		
Letters of guarantee	2,235,337	953,083
Letters of credit	549,924	607,751
	2,785,261	1,560,834

	2004 AED'000	2003 AED'000
Capital commitments		
Future capital expenditure commitments	179,033	126,612

28 - CASH AND CASH EQUIVALENTS

	2004 AED'000	2003 AED'000
Cash and balances with U.A.E. Central Bank	2,067,210	1,244,775
International Murabahat, short term	7,502,571	6,949,435
Balances and deposits with banks	225,759	139,892
Less:		
Deposits with banks with original maturity over 3 months	(46,478)	(101,573)
	9,749,062	8,232,529

29 - PROFIT EQUALIZATION PROVISION

	2004 AED'000	2003 AED'000
Balance, beginning of the year	126,014	90,098
Share of profit for the year (Note 9)	5,524	3,993
Adjustments during the year	-	1,126
	131,538	95,217
Zakat of the year	(3,336)	(2,454)
Additional transfer (to) from depositors' share of profit during the year (Note 9)	(2,100)	34,183
Zakat of the transferred amount	-	(932)
Balance, end of the year (Note 19)	126,102	126,014

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

30 - RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, senior officers and their related concerns in the ordinary course of business at commercial rates. All facilities to related parties are performing facilities and free of any provision for possible losses.

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

The attached notes 1 to 40 form part of these financial statements.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

30 - RELATED PARTY TRANSACTIONS - continued

	2004 AED'000	2003 AED'000
Financing and investing activities	841,275	793,257
Customers' deposits	76,517	501,547

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

	2004 AED'000	2003 AED'000
Financing and investing activities	17,125	17,177
Customers' deposits	2,863	16,133

31 - SEGMENTAL INFORMATION

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

	Financing activities		Investing activities		Total	
	2004 AED'000	2003 AED'000	2004 AED'000	2003 AED'000	2004 AED'000	2003 AED'000
Segment revenue	887,644	757,980	582,374	266,776	1,470,018	1,024,756
Inter-segment adjustment	182,138	143,707	(182,138)	(143,707)	-	-
	<u>1,069,782</u>	<u>901,687</u>	<u>400,236</u>	<u>123,069</u>	<u>1,470,018</u>	<u>1,024,756</u>
Net profit for the year before depositors' share					<u>1,017,796</u>	<u>750,664</u>
Segment assets	<u>24,195,865</u>	<u>18,091,109</u>	<u>6,417,496</u>	<u>4,687,210</u>	<u>30,613,361</u>	<u>22,778,319</u>
Segment liabilities and equity	<u>29,069,573</u>	<u>22,108,140</u>	<u>1,543,788</u>	<u>670,179</u>	<u>30,613,361</u>	<u>22,778,319</u>

For operational and management reporting purposes the Bank is organised as one geographical segment. Consequently, no secondary segment information is required to be provided.

32 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

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

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

32 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP) - continued

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

The remaining 411,300 shares acquired by the Bank under this scheme are held as treasury stock and will be issued to employees in the future as and when the employees meet the pre-determined criteria under the ESOP. The cost of acquisition of these shares was AED 8,226 thousand at the rate of AED 20 per share. The fair value of these shares at 31 December 2004 is estimated at AED 38.2 million.

33 - CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

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

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

The Bank seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate. For details of the composition of financing and investing activities refer to Note 12.

34 - MARKET RISK

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

35 - PROFIT MARGIN RISK

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

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

36 - CURRENCY RISK

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

The Bank had an overbought positions in US Dollars and Saudi Riyals of AED equivalent 9,557 million and 2,515 million respectively as at 31 December 2004 (2003: AED equivalent 6,303 million and 3,572 million respectively). There was no significant open position in any other currency. The UAE Dirham/US Dollar dealing rate fixed by the UAE Central Bank has remained virtually unchanged since November 1980.

37 - FORWARD FOREIGN EXCHANGE CONTRACTS

The table below shows the positive and negative fair values of forward foreign exchange contracts, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of the forward contracts' underlying asset, reference rate or index and is the basis upon which changes in the value of forward contracts are measured. The notional amounts indicate the volume of

transactions outstanding at year end and are neither indicative of the market nor credit risk.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

31 December 2004:

	Positive fair value AED'000	Negative fair value AED'000	Notional amount total AED'000	Notional amounts by term of maturity			Over 1 to 5 years AED'000
				Within 3 months AED'000	Over 3 months to 6 month AED'000	Over 6 months to 12 month AED'000	
Held for trading:							
Forward foreign exchange contracts	-	14,775	189,016	-	137,766	51,250	-

There were no forward foreign exchange contracts or other derivative instruments outstanding as at 31 December 2003.

Product type

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

Related credit risk

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

38 - LIQUIDITY RISK

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

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

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

	Less than 3 months AED'000	3 months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2004				
Assets:				
Cash and balances with U.A.E. Central Bank	2,067,210	-	-	2,067,210
Balances and deposits with banks	189,029	36,730	-	225,759
International Murabaha, short term	4,905,383	2,597,188	-	7,502,571
Islamic financing and investing assets, net	3,473,777	3,434,256	10,579,080	17,487,113
Development properties	-	-	216,518	216,518
Investment properties, net	-	-	1,138,379	1,138,379
Other investments, net	387,715	-	983,915	1,371,630
Prepayments and other assets	474,431	-	3,295	477,726
Fixed assets, net	-	-	126,455	126,455

The attached notes 1 to 40 form part of these financial statements.

Total assets 11,497,545 6,068,174 13,047,642 30,613,361

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS At 31 December 2004

38 - LIQUIDITY RISK - continued

Liabilities and shareholders' equity:

Customers' deposits	15,667,338	9,273,678	-	24,941,016
Due to banks and other financial institutions	1,182,806	210,372	-	1,393,178
Other liabilities and minority interest	1,252,889	-	24,805	1,277,694
Accrued zakat	-	14,877	-	14,877
Shareholders' equity	-	-	2,986,596	2,986,596

Total liabilities and shareholders' equity 18,103,033 9,498,927 3,011,401 30,613,361

	Less than 3 months AED'000	3 months to 1 year AED'000	Over 1 year AED'000	Total AED'000
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2003

Assets:

Cash and balances with U.A.E. Central Bank	1,244,775	-	-	1,244,775
Balances and deposits with banks	38,319	101,573	-	139,892
International Murabahat, short term	6,949,435	-	-	6,949,435
Islamic financing and investing assets, net	1,748,759	2,711,373	7,776,298	12,236,430
Development properties	-	-	66,842	66,842
Investment properties, net	-	-	1,185,405	1,185,405
Other investments, net	131,611	-	413,016	544,627
Prepayments and other assets	159,748	133,738	-	293,486
Fixed assets, net	-	-	117,427	117,427

Total assets 10,272,647 2,946,684 9,558,988 22,778,319

Liabilities and shareholders' equity:

Customers' deposits	11,675,727	8,207,526	-	19,883,253
Due to banks and other financial institutions	20,675	300,061	-	320,736
Other liabilities and minority interest	836,606	-	26,169	862,775
Accrued zakat	-	13,375	-	13,375
Shareholders' equity	-	-	1,698,180	1,698,180

Total liabilities and shareholders' equity 12,533,008 8,520,962 1,724,349 22,778,319

Maturities of assets and liabilities have been determined on the basis of the remaining periods at the balance sheet date.

39 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The fair value of forward foreign exchange contracts is set out in note 37. The fair values of the Bank's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2004.

40 - COMPARATIVE AMOUNTS

The corresponding figures for 2003 have been reclassified in order to conform to the presentation for the current

The attached notes 1 to 40 form part of these financial statements.

HEAD OFFICE AND BRANCHES

Emirates	Branch	Telephone	Facsimile	P.O.Box
Dubai	Head Office	04 2953000	04 2954111	1080
	Main Branch (Deira)	04 2959999	04 2954999	1080
	Twin Towers	04 2233300	04 2215113	7400
	Sheikh Zayed Road	04 3437777	04 3433777	1080
	Nad Al Sheba	04 3390777	04 3391116	1080
	Bur Dubai	04 3971717	04 3970967	1080
	Jumeirah (Ladies Branch)	04 3429955	04 3441136	1080
	Dubai Internet City	04 3624600	04 3624606	1080
Abu Dhabi	Abu Dhabi	02 6346600	02 6346643	3863
	Al Khalidyah (Ladies Branch)	02 6677119	02 6677016	3863
	Al Salam	02 6450555	02 6450404	55011
	Baniyas	02 5825511	02 5825554	3062
Al Ain	Al Ain	03 7644111	03 7511311	1232
	Al Ain Mall	03 7516555	03 7516060	1232
Sharjah	Sharjah	06 5726444	06 5727555	1409
	Wasit Road	06 5584455	06 5584949	1409
	Al Ghubaiba (Ladies Branch)	06 5661116	06 5676976	1409
	Dhaid	06 8826682	06 8826653	1409
Ajman	Ajman	06 7466555	06 7466626	915
Umm Al Quwain	Umm Al Quwain	06 7666630	06 7666799	799
Fujairah	Fujaira	09 2221550	09 2229249	1007
Khor-fakkan	Khor-fakkan	07 2370080	07 2370656	17799
Ras Al Khaimah	Ras Al Khaimah	07 2284888	07 2284788	1522