



بنك دبي الإسلامي ش.م.ع.
DUBAI ISLAMIC BANK P.J.S.C.

التقرير السنوي
ANNUAL REPORT
2003

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OUR VISION

To be the leading provider of innovative financial services in accordance with the legislation of Allah.

MISSION STATEMENT

We are proud to be the first Islamic Bank worldwide, that has translated true Islamic economic principles into practice, out of firm belief in the need of mankind for an economic system based on the Final Revelation. By partnering with our customers in Halal earnings, employing best business practices, the latest financial services technologies and placing our

FINANCIAL HIGH-

Particulars	AED (million)*		
	2003	2002	2001
Total Assets	22,778	19,598	15,334
Customers' Deposits	20,204	17,229	13,409
Shareholders' Equity	1,548	1,474	1,137
Total Income	1,025	882	834
Net Profit**	751	601	616
Capital Adequacy Ratio	10.1%	10.4%	11.7%
Liquidity Ratio	36.1%	36.6%	34.6%
Share Dividend	15%	10%	10%
Profit Rates On Deposits	%	%	%
1 Year Deposits	3.50	3.75	5.00
9 Months Deposits	3.06	3.28	4.37
6 Months Deposits	2.63	2.81	3.75
3 Months Deposits	2.19	2.34	3.12
Investment Saving	2.19	2.34	3.12

*US\$ = AED 3.673

** Net Profit includes shareholders' and depositors' profits

The Board of Directors' Report to Shareholders on the Financial Year 2003

To our Valued Shareholders,

We are pleased to present to you the Board of Directors Report on the Bank's business and results for the financial year ended 31. 12. 2003.

Praise be to Allah, the Bank continued its strong financial performance as reflected in its financial indicators and key ratios during the year 2003, a continuation of its results in the previous year and in line with the growing national economy in all its sectors. It is expected that the UAE financial and economic indicators will show a remarkable increase, with local liquidity expected to increase by 10% from AED 173.6 billion at the end of 2002 to more than AED 192 billion due to the increase in money supply, resulting from the increase of cash deposits in the banking system of more than 25% during the year. In addition, total liquidity is expected to increase by 10% due to the increase of local liquidity and government deposits. On the international scene, despite the negative effects of the war on Iraq, the UAE economy has been able to achieve a high growth rate, both in the oil and non-oil sectors, such as the manufacturing, electricity, water, gas, real estate and commercial and retail borrowing sectors. These developments are expected to result in a GDP growth of up to 12% at the current prices to reach AED 293 billion, compared to AED 261 billion in 2002.

The Bank's financing and investments activities have seen the same upward trend due to the contribution of the non-oil economic sectors which represent 68% of the UAE's GDP and are expected to record a 5.8% growth in 2003. Thus, credits granted have grown more than 15% during the year, from AED 165.6 billion to more than AED 191 billion, a trend that reflects the Bank's vision and sound policies of employing and investing its fund in the appropriate economic channels by taking into consideration prevailing economic factors and conditions.

The Bank's business in 2003 was characterised by its high quality and steady performance. The Bank entered into strategic alliances with leading local and international firms benefiting from the relative advantages enjoyed by these firms. By adopting this policy, the Bank aims to realise its vision by diversifying its banking products and services solutions for its existing and potential customers, and in line with the increase in deposits received by the Bank for investment and profit maximization.

Bearing this in mind, the Bank has launched its first activity in investment portfolios and funds, namely the Dubai Islamic Bank's Real Estate Fund, which started its investments by introducing a commercial real estate portfolio exclusively for the USA market and which subsequently, received a remarkable response from customers. The Bank is now ready to launch other funds in various activities and geographical regions worldwide.

At the corporate banking services level, the Bank has focused on participating in the finance of many major sectors in the UAE, such as power and electricity sector, transport and aviation, real estate and syndicated ijara, on both local and international levels.

The Board of Directors' Report to Shareholders on the Financial Year 2003

Moreover, the Bank has taken important steps in developing viable operations and processes by adopting new technology in order to enhance its services. This policy has had a positive effect on the Bank's performance and operations, resulting in the Bank receiving recognition from renowned institutions specialising in IT solutions for the banking sector, such as the JP Morgan Award for quality operations. In addition, Dubai Islamic Bank has been the first bank in the Middle East to modernise its Visa card processing operation by relying on the Internet Protocol (IP) to provide high quality, secured and user-friendly services.

The Bank has expanded its geographic presence by opening three new branches, namely Al Barsha branch in Dubai and Wasit and Al Dhaid branches in Sharjah, bringing the total number of its branches to 19. In addition, five new 24-hour self service branches have been launched at selected branches and a large car showroom opened at the Emirate Trade Center, on Sheikh Zayed Road in Dubai.

With regard to the Bank's firm commitment to comply with the government policy of emiratisation in the banking sector, the Bank has made remarkable efforts in this respect with the UAE national employees now representing 35% of the total number of employees, one of the highest ratios in the UAE. As such, the number of UAE nationals working in the Bank has increased by 23%, from 243 in 2002 to 299 in 2003.

The Bank and its affiliated companies' assets increased by 16% to AED 22.8 billion against AED 19.6 billion in the previous year, representing an increase of AED 3.2 billion. On the other hand, customers' deposits increased by 18% from AED 16.9 billion to AED 19.9 billion, representing an increase of AED 3 billion. The total shareholders' equity increased to AED 1,698 million against AED 1,574 million (including shareholders' share in profit) in 2002 and the return on shareholders' equity stood at 19.7%, while the return on capital stood at 23.5%.

The Bank and its subsidiaries companies have achieved a net profit of AED 751 million (including depositors' share in the profit) against AED 601 million in 2002, an increase of AED 150 million. The depositors' share in the net profit amounted to AED 516 million while shareholders' share amounted to AED 234 million against AED 160 million, an increase of AED 74 million, at 46%. As a result of the positive financial results, the Board of Directors have proposed a cash dividend distribution of AED 150 million, at 15% per share.

Report of the Fatwa and Shariah Supervisory Board on the Bank's Business for 2003

FIRST:

1. The Board has supervised the Bank's activities and transactions during 2003 and has carried out its role of guiding the various departments of the Bank with respect to compliance with the provisions and principles of Islamic Shariah and the Board's fatwas on such activities and transactions.
2. The Board has reviewed the Bank's books, records and documents and obtained the information that it deemed necessary for carrying out its mission.
3. The Board has reviewed the transactions and projects submitted to it during the year for its opinion and approved the contracts and documents relating to such transactions and projects, answered the questions and inquiries relating to them and issued the appropriate decisions and fatwas. These fatwas and decisions were circulated to the various departments and sections of the Bank for implementation.

The Board stresses that the only guarantee for the proper implementation of the principles of Islamic Shariah and the Board's decisions is the training of the Bank's staff on the principles of Islamic banking so that they would gain the necessary experience in Islamic banking in a manner that enables them to implement and promote it.

SECOND:

1. The Shariah supervisor presented the Board with the shariah supervision and auditing reports on the Bank's transactions executed during 2003. The Board made its remarks on the execution of such transactions and circulated them to the various departments of the Bank for future compliance.
2. The Board has decided to set aside the sum of AED 658,000 and suspend the sum of AED 798,000 from the profits of transactions executed contrary to the principles of Islamic Shariah and the Board's fatwas during the year and directed that these amounts be disbursed in various charity causes.
- 3.

While stressing that the responsibilities of the implementation of the principles of Islamic Shariah on all the Bank's activities and transactions are that of the Bank's management, the Board would state that with respect to the cases submitted to it; the transactions reviewed by it; the remarks made by it and the response of the various departments of the Bank with respect to the implementation of such remarks, the Bank's transactions executed during the

THIRD: year 2003 comply in the whole with the principles of Islamic Shariah.

The Board confirms that the various departments of the Bank have complied with the standard forms of contracts and agreements approved by the Board.

FOURTH:

The Board has reviewed the Bank's activity in the field of banking services and confirms that the services, fees, charges and commissions charged by the Bank against such services do not violate the principles of Islamic Shariah.

Report of the Fatwa and Shariah Supervisory Board on the Bank's Business for 2003

FIFTH:

The Board has developed the present investment instruments and finance contracts and introduced new Shariah-compliant products, such as ijarah service, something that has enriched the Islamic finance industry.

SIXTH:

The Board has assisted in reformulating standard forms for international finance agreement in which Islamic and traditional banks participate. Conventional banks have responded favourably to these forms, which has resulted in that these forms now becoming international Shariah-compliant agreement forms accepted by both Islamic and conventional banks participating in syndicated finance. Consequently, this has resulted in Dubai Islamic Bank emerging as a pioneering bank in this field.

SEVENTH:

The Balance Sheet: The Board has seen the Bank's Balance Sheet and the accompanying Financial Statements and Notes and would comment as follows:

1. That the Balance Sheet according to the information submitted by the Bank's management represents the Bank's Assets and Income.
2. That the distribution of profits and dividends to depositors and shareholders have taken place on the same basis adopted by the Bank since its incorporation. The Board has submitted its recommendations and made its remarks on this basis and the Bank's management in turn have submitted the recommendations and remarks to the Board of Directors for review and approval. The results will appear in the next year's balance sheet, Allah willing.
3. According to the Bank's Articles of Association, the Board has reviewed the Zakat account that the Bank should pay on shareholders' funds (excluding paid-up capital*) held by the Bank according to the principles of Shariah. With regards to Zakat payable on the Bank's capital, it is the responsibility of shareholders. As such, the Board has calculated the amount of Zakat due on a single share and will notify shareholders accordingly.

Members of the Board

Professor Dr. Hussein Hamid Hassan

Professor Dr. Ali Mohioaldein Al Karadaghi

Sheikh Mohammed Abdul Razak Al

Sedeiq

Secretary General

Sheikh Mohammed Abdul Hakeim Zuair

* According to the provision of Article (76) of the Bank's Articles of Association, shareholders have to calculate and pay out the due

Zakat on their share amounts and the relevant dividends themselves, based on one of the two methods explained

SHARES' ZAKAT FOR THE YEAR 2003

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 methods of calculating the Zakat on your shares, which is as follows:

FIRST METHOD:

Zakat payable according to Islamic Shariah per share purchased for trading purposes (i.e. those shares that are purchased and then resold for reselling them when their values goes up) is calculated as follows:

$$\begin{aligned} \text{Zakat Pool per share} &= \text{Market value of the share} + \text{dividend per share for the year} \\ \text{Zakat per share} &= \text{Zakat pool per share} \times 2.5775\%* \\ \text{Total Zakat due on your shares} &= \text{Zakat per share} \text{ minus } 0.074 \times \text{number of shares}^{**} \end{aligned}$$

SECOND METHOD:

Zakat payable according to Islamic Shariah per share, that are purchased for acquisition (i.e. for benefiting from their annual return) is calculated as follows:

$$\text{Zakat on Shares} = \text{Total shares' dividends distributed for this year} \times 10\%$$

*Zakat rate for Hijri year is calculated at 2.5% and for the Gregorian year at 2.5775%.

**Represents a part of Zakat per share which the Bank has paid out on its reserves and therefore should be deducted from the Zakat per share which a shareholder is supposed to pay.

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

The total number of Interest-free Loan(s) cases approved for those entitled to them during the year was 1,528 cases, for a total amount of AED 12,376,000 according to the following table:

Interest-free Loan	Number of Cases	AED'000
Marriage	707	5,482,500
Medical treatment	280	2,231,000
Debts repayment	541	4,662,500
Total	1,528	12,376,000

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 2003 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements 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 2003 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

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.

Signed by:
Hamed Kazim

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
CONSOLIDATED INCOME STATEMENT - Year ended 31 December 2003

	Notes	2003 AED'000	2002 AED'000
INCOME			
Income from financing and investing activities	3	709,067	649,714
Income from international murabahat, short term		1 17,397	92,803
Income from investment properties	4	98,702	78,856
Commissions, fees and foreign exchange	5	86,160	59,576
Other operating income		13,430	951
TOTAL INCOME		1,024,756	881,900
EXPENSES			
General and administrative expenses	6	(286,266)	(219,574)
Depreciation of investment properties		(28,304)	(26,870)
Reversals (provisions) for impairment	7	44,829	(26,000)
TOTAL EXPENSES		(269,741)	(272,444)
Net income for the year before minority interest and depositors' share		755,015	609,456
Minority interest		(4,351)	(8,522)
Net income for the year before depositors' share		750,664	600,934
Depositors' share of profits	8	(516,208)	(441,136)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS'		234,456	159,798
Earning per share (Dirhams)	9	2.32	1.58

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
CONSOLIDATED BALANCE SHEET - At 31 December 2003

	Notes	2003 AED'000	2002 AED'000
ASSETS			
Cash and balances with U.A.E. Central Bank	10	1,244,775	1,046,782
Balances and deposits with banks		139,892	252,164
International murabahat, short term		6,949,435	6,111,541
Financing and investing activities, net	11	12,529,403	10,115,730
Properties held for sale	12	66,842	-
Investment properties, net	13	1,185,405	1,390,091
Other investments, net	14	251,654	260,118
Prepayments and other assets	15	293,486	302,057
Fixed assets, net	16	117,427	119,307
Total assets		22,778,319	19,597,790
LIABILITIES			
Customers' deposits	17	19,883,253	16,986,809
Due to banks and other financial institutions	18	320,736	242,406
Other liabilities	19	858,507	775,486
Accrued Zakat	20	13,375	10,581
Total liabilities		21,075,871	18,015,282
Minority interest	21	4,268	8,522
Shareholders' equity			
Share capital	22	1,000,000	1,000,000
Statutory reserve	23	79,463	56,017
Donated land reserve	23	284,701	284,701
General reserve	23	180,000	130,000
Retained earnings		4,016	3,268
Proposed dividends	24	150,000	100,000
Total shareholders' equity		1,698,180	1,573,986
Total liabilities and shareholders' equity		22,778,319	19,597,790
Commitments and contingent liabilities	25	1,560,834	1,638,363

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 24 February 2004.

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

	Notes	2003 AED'000	2002 AED'000
OPERATING ACTIVITIES			
Profit attributable to shareholders		234,456	159,798
Adjustments for:			
(Reversals) provisions for impairment		(44,829)	26,000
Depreciation of investment properties		28,304	26,818
Depreciation of fixed assets		20,237	20,251
		238,168	232,867
Changes in operating assets and liabilities			
Reserves with U.A.E. Central Bank		(195,003)	(171,782)
Investment deposits with banks		73,827	158,914
Financing and investing activities		(2,368,844)	(1,759,853)
Prepayments and other assets		8,571	(130,568)
Customers' deposits		2,896,444	3,794,200
Due to banks and other financial institutions		78,330	26,151
Other liabilities		80,171	95,589
Accrued Zakat		(4,618)	(3,699)
Net cash provided by operating activities		807,046	2,241,819
INVESTING ACTIVITIES			
Movement in investment properties, net		176,382	(225,835)
Movement in properties held for sale, net		(66,842)	-
Movement in other investments, net		8,464	(96,810)
Movement in fixed assets, net		(18,357)	(91,101)
Minority interest		(4,254)	8,522
Net cash from (used in) investing activities		95,393	(405,224)
FINANCING ACTIVITY			
Dividends paid		(100,000)	(100,000)
Cash used in financing activity		(100,000)	(100,000)
INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at the beginning of the year	26	6,434,375	4,697,780
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	7,236,814	6,434,375

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - Year ended 31 December

	Share capital 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 2001	1,000,000		-	95,000	1,523	100,000	1,236,560
Fair value of donated land	-		284,701	-	-	-	284,701
Net income for the year	-		-	-	-	-	159,798
Transfer to reserves	-		-	35,000	-	-	-
Dividends paid – 2001	-		-	-	-	-	(100,000)
Zakat	-		-	-	-	-	(5,623)
Directors' remuneration	-		-	-	-	-	(1,450)
Proposed dividends	-		-	-	-	-	-
As of 31 December 2002	1,000,000		284,701				
Net income for the year	-		-				
Transfer to reserves	-		-				
Dividends paid – 2002	-		-				
Zakat	-		-				
Directors' remuneration	-		-				
Proposed dividends	-		-				
As of 31 December 2003	1,000,000		284,701				

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

1 ACTIVITIES

Dubai Islamic Bank (Public Joint Stock Company) was incorporated as a Public Joint Stock Company, 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.

In addition to its main office in Dubai, the Bank operates through 19 branches (2002: 16 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:

Company	Principal activity	Country of incorporation	Percentage of equity	
			2003	2002
1. Naseej Industries Company L.L.C.		Textile Manufacturing UAE	98.0 %	98.0 %
2. Al Bustan Center Company L.L.C. and its Subsidiaries	Rental of apartments and shops	UAE	50.0 %	50.0 %
3. DIB Printing Press L.L.C.	Printing	UAE	99.5 %	99.5 %
4. Al Ahlia Aluminum Company L.L.C.		Aluminum fixtures UAE	75.5 %	75.5 %
5. United Mineral Water P. S.C.	Bottling of natural water	Egypt	88.2 %	74.5 %
6. Emirates Finance Co. L.L.C.	Financing	UAE	-	99.5 %
7. Islamic Financial Services L.L.C.	Financing	UAE	95.5 %	95.5 %
8. Global Real Estate Development Company P. S.C.	Real estate development	UAE	95.5 %	-
9. Al Tanmyah Services L.L.C.	Labour services	UAE	99.5 %	-
10. Gulf Tankers L.L.C.	Cargo and transport	UAE	50.0 %	50.0 %
11. Islamic Investment Company P. S.C.		Financing & investing UAE	95.5 %	95.5 %

The entities listed under 10 and 11 did not conduct any operations during the current or previous year. The activities of the entity listed under 6 above were transferred to Tamweel LLC in which the bank has a 50% interest as a joint venture partner.

The consolidated financial statements of the following companies are included in the combined consolidated financial statements of Al Bustan Center Company L.L.C. and its Subsidiaries:

Company	Principal activity	Country of incorporation	Percentage of equity	
			2003	2002
1. Al Bustan National L.L.C.	Retail department store and trading in consumable products	UAE	100%	100%
2. Al Taeba Food Restaurant	Running of restaurants	UAE	99%	99%

The Bank carries out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna, 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 2003 the Bank and its subsidiaries employed 1,665 (2002: 1,541) employees.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

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.

The accounting policies 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 (see note 1). 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 Bank sells to a customer a commodity which the Bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

- Istissna'a

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

- Ijara

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

- Musharaka

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

2 SIGNIFICANT ACCOUNTING POLICIES - continued

- Mudaraba

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

- Wakala

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

Balances and deposits with banks

Balances and deposits with banks are stated at cost less amounts written off and provision for impairment, if any. The gains or losses are recognized in the consolidated income statement.

International murabahats, short term

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

Financing and investing activities

Financing and investing activities consist of Murabaha receivables, Mudaraba financing, Musharaka financing, investments under Wakala arrangements, Istissna'a and Ijarah contracts.

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

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

Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale. Properties held for sale are stated at cost or at net realisable value, whichever is lower. Cost includes the cost of land and other related expenditure such as professional fees and administrative costs attributable to the project, which are capitalized as and when activities that are necessary to get the assets ready for the intended use are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

Direct costs from the start of the project up to completion of the project are capitalized. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed.

Properties deemed to be categorized as properties held for sale are specified by the Board of Directors on an annual basis. The Board of Directors reviews the carrying values of the properties held for sale on an annual basis.

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 2003

2 SIGNIFICANT ACCOUNTING POLICIES - continued

Other investments

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 Bank generally holds 20% to 50% of the voting power or over which it exercises significant influence.

Other 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.

The Bank's interest in jointly controlled entities, which are defined as those companies which are subject to joint control, are accounted for under the proportionate consolidation method.

Fixed assets

Fixed assets are initially recorded at cost. 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.

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 20-25 years
- Plant and machinery 10-15 years
- Furniture and office equipment 4-5 years
- Information technology 5 years
- Motor vehicles 3 years

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.

Revenue recognition

- Murabaha

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

- Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

2 SIGNIFICANT ACCOUNTING POLICIES - continued

- Ijarah

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

- Musharaka

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

- Mudaraba

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

- 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.

- Forfeited income

According to Fatwa and Shariah Supervisory Board, the Bank has to identify any income deemed to be derived from non-Islamic sources, and to set aside such amount in a separate account used to pay for local social activities (forfeited income).

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.

Employees' end of service benefits

The Bank 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 Bank 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 investment and financing activities general provision is deducted from profit for the year before appropriation.
 - Zakat on shareholders' equity is deducted from their dividends and is computed on their Zakat pool (shareholders' equity less paid up capital, plus employees' end of service benefits).
 - Zakat on profit equalization reserve is charged to this reserve 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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

2 SIGNIFICANT ACCOUNTING POLICIES - continued

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 Fatwa and Shariah Supervisory Board.

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flows, cash equivalents are considered to be cash and balances with the U.A.E. Central bank, due from banks and international Murabaha. 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 bank 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 bank 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, based on the net realizable value of future anticipated cash flows, recognised for the difference between the recoverable amount and the carrying amount in the consolidated income statement.

In addition to covering specific impaired financing and investing exposures, the provision for impairment also covers losses where there is objective evidence that probable losses are present in components of the financing and investing activities portfolio at the balance sheet date. These have been estimated based on historical patterns of losses in each component of financing and investing activity and reflecting the current economic climate.

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 bid prices at the close of business on the balance sheet date.

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.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

3 INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2003 AED'000	2002 AED'000
Financing activities		
Commodities murabahat	249,478	227,843
Vehicles murabahat	132,754	106,269
Istissna'a	148,477	160,246
Ijara	42,815	23,730
	573,524	518,088
Investing activities		
Musharakat	58,156	71,634
Mudarabat		20,400
Wakalat	18,098	12,976
Investment funds, net	18,185	1,246
Others	6,285	10,298
	121,124	121,550
Investments in companies		
Dividend income	9,513	5,577
Gain on valuing investments available for sale	4,906	4,499
	14,419	10,076
Total income from financing and investing activities	709,067	649,714

Others amounting to AED 6,285,000 (2002: AED 10,298,000) are presented net of forfeited income of AED 658,000 (2002: AED 837,000).

4 INCOME FROM INVESTMENT PROPERTIES

	2003 AED'000	2002 AED'000
Rental income	72,611	64,956
Gain on sale of investment properties	18,109	7,739
Others	7,982	6,161
	98,702	78,856

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

5	COMMISSIONS, FEES AND FOREIGN EXCHANGE		
		2003	2002
		AED'000	AED'000
	Commissions and fees	53,246	44,532
	Foreign exchange gains	32,914	15,044
		86,160	59,576

6	GENERAL AND ADMINISTRATIVE EXPENSES		
		2003	2002
		AED'000	AED'000
	Payroll and payroll-related expenses	168,625	132,655
	Operating expenses	42,890	40,125
	Administrative expenses	55,380	28,665
	Depreciation of fixed assets	16,794	15,552
	Zakat on provision for impairment	2,577	2,577
		286,266	219,574

7	REVERSALS (PROVISIONS) FOR IMPAIRMENT		
		2003	2002
		AED'000	AED'000
	Financing and investing activities (Note 11)	44,829	(23,400)
	Others	-	(2,600)
		44,829	(26,000)

8	DEPOSITORS' SHARE OF PROFITS		
		2003	2002
		AED'000	AED'000
	Share for the year	516,208	441,136
	Less: Pertaining to opening profit equalisation reserve (Note 27)	(3,993)	(3,341)
	Less: Additional transfer to profit equalisation reserve (Note 27)	(34,183)	(17,791)
	Depositors' payable share of profit, net (Note 19)	478,032	420,004

9 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 231,606,000 (2002: AED 158,348,000) by the weighted average number of shares outstanding during the year of 100,000,000 of AED 10 each (2002: 100,000,000 of AED 10 each).

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

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

	2003 AED'000	2002 AED'000
Cash in hand	183,968	125,280
Balances with Central Bank:		
Current accounts	65,092	120,790
Reserve requirements	995,715	800,712
	1,244,775	1,046,

11 FINANCING AND INVESTING ACTIVITIES (NET)

	2003 AED'000	2002 AED'000
Financing activities		
International Murabahat	1,101,262	1,074,803
Commodities Murabahat	3,076,266	2,509,509
Vehicles Murabahat	1,836,003	1,609,871
Real Estate Murabahat	775,457	828,199
Total Murabahat	6,788,988	6,022,382
Istisna	2,492,734	2,639,189
Ijara	1,961,347	782,338
Others	22,000	80,932
	11,265,069	9,524,841
Less: Deferred income	(1,318,342)	(1,287,610)
Contractors and consultants' Istisna contracts	(333,930)	(342,402)
Down payments from Istisna customers	(16,675)	(10,954)
Provision for impairment	(602,127)	(657,933)
	8,993,995	7,225,942
Investing activities		
Musharakat in buildings	1,288,638	1,091,217
Mudarabat	947,685	653,897
Wakalat	489,157	630,198
Investment funds	292,973	41,678
	3,018,453	2,416,990
Less: Provision for impairment	(59,592)	(52,395)
	2,958,861	2,364,595
Projects in progress	576,547	525,193
Total financing and investing activities, net	12,529,403	10,115,730

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

11 FINANCING AND INVESTING ACTIVITIES (NET) - continued

Gross financing and investing activities by geographical area are as follows:

	2003 AED'000	2002 AED'000
Within U.A.E.	12,581,158	10,880,458
Outside U.A.E.	2,278,911	1,586,566
	14,860,069	12,467,024

Financing and investing activities by industry groups are as follows:

	2003 AED'000	2002 AED'000
Financial institutions	307,354	171,925
Real estate	5,632,446	5,347,175
Trade	2,619,165	2,474,893
Government	777,502	649,976
Manufacturing and services	3,143,484	2,071,433
Personal financing and others	2,380,118	1,751,622
	14,860,069	12,467,024

Movements in the provision for impairment are as follows:

	2003 AED'000	2002 AED'000
Balance, beginning of the year	710,328	684,482
Transfers in respect of subsidiaries	-	21,680
	710,328	706,162
Charge for the year (Note 7)	-	23,400
Write-offs	(3,780)	(19,234)
Reversals (Note 7)	(44,829)	-
Balance, end of the year	661,719	710,328

12 PROPERTIES HELD FOR SALE

	2003 AED'000	2002 AED'000
Balance, beginning of year	-	-
Additions during the year	66,842	-
Balance, end of year	66,842	-

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

In U.A.E.	615,815	795,217
Outside U.A.E.	61,920	60,356
	677,735	855,573
Less: Provision for impairment	(300)	(700)
	677,435	854,873
	2003	2002
	AED'000	AED'000
Real estate		
In U.A.E.	608,669	612,664
Outside U.A.E.	73,606	70,193
	682,275	682,857
Less: Accumulated depreciation and provision for impairment	(174,305)	(147,639)
	507,970	535,218
Investment properties, net	1,185,405	1,390,091

The fair value of the Bank's investment properties in U.A.E as of 31 December 2003 is AED 1,174,268,000 (2002: AED 1,275,866,000) as per valuations conducted by the Bank's real estate department. Management believes this valuation is in line with the market.

Land in the UAE includes land valued at AED 284,701,000 donated by the Government for the sole benefit of the shareholders. The land has been valued by independent professional valuers and the fair market value determined by these valuers at the date of the donation is considered as the cost (Note 23).

Investment properties outside U.A.E. include AED 74 million (2002: AED 89 million) 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.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

13 INVESTMENT PROPERTIES (NET) - continued

The movement in investment properties is as follows:

	Land AED '000	Real Estate AED '000	Total AED '000
Cost:			
Balance, beginning of the year	855,573	682,857	1,538,430
Additions during the year	61,146	55,756	116,902
Disposals during the year	(212,796)	(61,946)	(274,742)
Transfers, net (Note 16)	(26,188)	26,188	-
Exchange loss on revaluation of properties outside UAE	-	(20,580)	(20,580)
Balance, end of the year	677,735	682,275	1,360,010
Accumulated depreciation/ provision for impairment:			
Balance, beginning of the year	700	147,639	148,339
Charge for the year	-	28,304	28,304
Relating to disposals	-	(1,638)	(1,638)
Reversal of provision for impairment	(400)	-	(400)
Balance, end of the year	300	174,305	174,605
Net book value and carrying value, end of the year	677,435	507,970	1,185,405

14 OTHER INVESTMENTS (NET)

	2003 AED'000	2002 AED'000
Investments available for sale, net	211,021	219,206
Investments in associates	40,633	40,912
	251,654	260,118

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

14 OTHER INVESTMENTS (NET) - continued

Investments available for sale are as follows:

	2003 AED'000	2002 AED'000
Quoted securities	131,611	121,496
Unquoted securities:		
Local	950	950
Foreign	93,869	112,269
	94,819	113,219
Less: Provision for impairment	(15,409)	(15,509)
	79,410	97,710
	211,021	219,206

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

Investments in associated companies comprise:

	2003 AED'000	2002 AED'000
Share in capital	40,354	40,354
Share of estimated profits	279	558
	40,633	40,912

The Bank's associated companies are:

equity Company	Principal activity	Country of incorporation	Percentage of	
			2003	2002
General Gypsum Company	Gypsum manufacture	UAE	28.7%	28.7%
Dubai Islamic Insurance & Re-Insurance Co. (AMAN)	Islamic insurance	UAE	25.0%	25.0%
Bosnia International Bank	Banking	Bosnia	27.3%	27.3%

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

14 OTHER INVESTMENTS (NET) - continued

Investment in a joint venture is as under:

The Bank has a 50% interest in Tamweel L.L.C., a company registered in Dubai. The joint venture is engaged in real estate financing. The Bank's 50% share of assets and liabilities in the joint venture included in the balance sheet is as under:

	2003 AED'000	2002 AED'000
Cash and balances with banks	3,634	-
International murabahat, short term	144,894	-
Prepayments and other assets	52	-
Fixed assets	576	-
Total assets	149,156	-
Capital	150,000	-
Loss for the period	(844)	-
	149,156	-

15 PREPAYMENTS AND OTHER ASSETS

	2003 AED'000	2002 AED'000
Rental income receivable	40,304	47,136
Other income receivable	28,926	35,316
Checks sent for collection	66,666	59,256
Prepaid expenses	29,514	25,692
Overdrawn current accounts, net	38,528	31,252
Qard Hassan (profit-free loan)	3,996	3,996
Inventories	15,153	30,973
Others	70,399	68,436
	293,486	302,057

Overdrawn current accounts are stated net of provision for impairment of AED 15,600,000 (2002: AED 15,600,000).

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

16 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 2003	45,086	70,993	97,291	38,107	5,134	10,968	267,579
Additions	5,907	1,491	2,179	1,414	239	9,143	20,373
Disposals	-	(29)	(15)	-	(379)	(1,657)	(2,080)
Transfers	-	16,756	(7,267)	1,669	-	(11,158)	-
Balance as of 31 December 2003	50,993	89,211	92,188	41,190	4,994	7,296	285,872
Accumulated depreciation:							
As of 1 January 2003	20,643	30,968	61,375	31,245	4,041	-	148,272
Charge for the year	2,101	7,495	7,885	2,506	250	-	20,237
Disposals	-	(17)	-	-	(47)	-	(64)
Transfers	-	11,745	(11,745)	-	-	-	-
Balance as of 31 December 2003	22,744	50,191	57,515	33,751	4,244	-	168,445
Net book value and carrying value:							
31 December 2003	28,249	39,020	34,673	7,439	750	7,296	117,427
31 December 2002	24,443	40,025	35,916	6,862	1,093	10,968	119,307

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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

17 CUSTOMERS' DEPOSITS

	2003 AED'000	2002 AED'000
a) By type:		
Current accounts	3,291,478	2,622,921
Saving accounts	3,185,930	2,510,461
Investment deposits	13,133,625	11,660,201
Margins	146,206	103,128
Profit equalisation reserve (Note 27)	126,014	90,098
	19,883,253	16,986,809
b) By maturity:		
Demand deposits	6,749,628	5,239,612
Deposits due within 3 months	4,926,099	3,885,662
Deposits due within 6 months	3,606,573	3,254,781
Deposits due within 1 year	4,600,953	4,606,754
	19,883,253	16,986,809
c) By geographical areas:		
Within U.A.E.	19,883,253	16,986,809
Others	-	-
	19,883,253	16,986,809
d) By currency:		
U.A.E. Dirham	19,538,058	16,625,476
Other currencies, mainly U.S Dollars	345,195	361,333
	19,883,253	16,986,809

18 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2003 AED'000	2002 AED'000
Current accounts	20,675	18,559
Investment deposits	300,061	223,847
	320,736	242,406

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

19 OTHER LIABILITIES

	2003 AED'000	2002 AED'000
Depositors' share of profit (Note 8)	478,032	420,004
Sundry deposits	40,269	41,249
Bankers checks	89,801	66,685
Provision for employees' end-of-service benefits	21,901	29,599
Checks received for collection	94,948	76,976
Rent received in advance	37,760	26,425
Unclaimed dividends	13,259	12,107
Board of directors' remuneration	2,850	1,450
Over-subscription in an associate company	-	41,599
Others	79,687	59,392
	858,507	775,486

20 ACCRUED ZAKAT

	2003 AED'000	2002 AED'000
Zakat on shareholders' equity (except for share capital)	7,412	5,623
Zakat on provision for impairment	2,577	2,577
Zakat on profit equalization reserve (Note 27)	3,386	2,381
	13,375	10,581

21 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.

22 SHARE CAPITAL

As at 31 December 2003, the Bank's authorized, issued and fully paid-up capital comprises 100,000,000 shares (2002: 100,000,000) of AED 10 each (2002: AED 10).

23 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.

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 13). 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.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

24 PROPOSED DIVIDENDS

The Board of Directors has proposed a cash dividend amounting to AED 150,000,000 at AED 1.50 per share of AED 10 each (2002: AED 100,000,000 at AED 1.00 per share of AED 10 each). This is subject to the approval of the shareholders at the annual general meeting.

25 COMMITMENTS AND CONTINGENT LIABILITIES

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 represents 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 guarantee arising in the normal course of business, as follows:

	2003 AED'000	2002 AED'000
Contingent liabilities:		
Letters of guarantee	953,083	923,536
Letters of credit	607,751	714,827
	1,560,834	1,638,363

26 CASH AND CASH EQUIVALENTS

	2003 AED'000	2002 AED'000
Cash and balances with U.A.E. Central Bank	1,244,775	1,046,782
International Murabahat, short term	6,949,435	6,111,541
Balances and deposits with banks	139,892	252,164
Less:		
Reserves with U.A.E. Central Bank	(995,715)	(800,712)
Deposits with banks with original maturity over 3 months	(101,573)	(175,400)
	7,236,814	6,434,375

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

27 PROFIT EQUALISATION RESERVE

	2003 AED'000	2002 AED'000
Balance, beginning of the year	90,098	70,938
Share of profit for the year (Note 8)	3,993	3,341
Adjustments during the year	1,126	409
	95,217	74,688
Zakat of the year	(2,454)	(2,005)
Additional transfer from depositors' share of profit during the year (Note 8)	34,183	17,791
Zakat of the transferred amount	(932)	(376)
Balance, end of the year (Note 17)	126,014	90,098

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

28 RELATED PARTY TRANSACTIONS

The Bank carries out transactions in the ordinary course of business with related parties, defined as shareholders and directors of the Bank and entities in which such shareholders and directors have significant interests.

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

	2003 AED'000	2002 AED'000
Financing and investing activities	793,257	893,276
Customers' deposits	501,547	360,820

29 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 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 market rates on an arm's length basis. Profit is charged/credited to business segments based on a pool rate which approximates the marginal cost of funds.

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

29 SEGMENTAL INFORMATION - continued

	Financing activities		Investing activities		Total	
	2003	2002	2003	2002	2003	2002
	AED,000	AED,000	AED,000	AED,000	AED,000	AED,000
Segment revenue	757,980	655,845	266,776	226,055	1,024,756	881,900
Inter-segment adjustment	143,707	126,797	(143,707)	(126,797)	-	-
	901,687	782,642	123,069	99,258	1,024,756	881,900
Net profit for the year before depositors' share					750,664	600,934
Segment assets	18,091,109	14,700,331	4,687,210	4,897,459	22,778,319	19,597,790
Segment liabilities	22,108,140	19,079,174	670,179	518,616	22,778,319	19,597,790

For operational and management reporting purposes the bank is organised as one geographical segment.

Consequently, no secondary segment information is required to be provided.

30 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 11.

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31 MARKET RISK

Market risk arises from fluctuations in profit rates and foreign exchange rates. Senior management monitors the effect of market fluctuations on the Bank periodically.

32 PROFIT MARGIN RISK

The return payable to investment account holders by the Bank is based on the principle of the Mudaraba contract by which the investment account holders agree to share the profit or loss made by the Bank over a given period. Any change in the market profit margin rates will determine both the profit margins the Bank is able to charge on its assets and the returns payable to investment account holders.

33 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 position in US Dollars of AED equivalent 6,303 million as at 31 December 2003 (2002: AED equivalent 8,258 million). 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.

The Bank does not undertake any hedging transactions as this is considered to be contrary to Islamic Shari'a.

34 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 have 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.

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34 LIQUIDITY RISK - continued

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
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
Financing and investing activities, net	1,748,759	2,711,373	8,069,271	12,529,403
Properties held for sale	-	-	66,842	66,842
Investment properties, net	-	-	1,185,405	1,185,405
Other investments, net	131,611	-	120,043	251,654
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	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

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - At 31 December 2003

34 LIQUIDITY RISK - continued

	Less than 3 months AED'000	3 months to 1 year AED'000	Over 1 year AED'000	Total AED'000
2002				
Assets:				
Cash and balances with U.A.E. Central Bank	1,046,782	-	-	1,046,782
Balances and deposits with banks	86,512	165,652	-	252,164
International Murabahat, short term	6,111,541	-	-	6,111,541
Financing and investing activities, net	1,722,300	1,529,613	6,863,817	10,115,730
Investment properties, net	-	-	1,390,091	1,390,091
Other investments, net	122,054	-	138,064	260,118
Prepayments and other assets	217,417	84,640	-	302,057
Fixed assets, net	-	-	119,307	119,307
Total assets	9,306,606	1,779,905	8,511,279	19,597,790
Liabilities and shareholders' equity:				
Customers' deposits	9,125,274	7,861,535	-	16,986,809
Due to banks and other financial institutions	55,289	187,117	-	242,406
Other liabilities	744,083	-	39,925	784,008
Accrued Zakat	-	10,581	-	10,581
Shareholders' equity	-	-	1,573,986	1,573,986
Total liabilities and shareholders' equity	9,924,646	8,059,233	1,613,911	19,597,790

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

35 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 values of the Bank's assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2003.

HEAD OFFICE AND BRANCHES

Emirate	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
	Al Barsha	04 3406000	04 3406005	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
Sharjah	Sharjah	06 5726444	06 5727555	1409
	Wasit Road	06 5584455	06 5584949	1409
	Dhaid	06 8826682	06 8826653	1409
Ajman	Ajman	06 7466555	06 7466626	915
Fujairah	Fujairah	09 2221550	09 2229249	1007
Khor-fakkan	Khor-fakkan	09 2370080	09 2370656	17799
Ras Al Khaimah	Ras Al Khaimah	07 2284888	07 2284788	1522
Al Ain	Al Ain	03 7644111	03 7511311	1232
	Al Ain Mall	03 7515155	03 7516060	1231