# Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

31 MARCH 2006 (UNAUDITED)

ERNST & YOUNG

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# REVIEW REPORT TO THE BOARD OF DIRECTORS OF DUBAI ISLAMIC BANK (PUBLIC JOINT STOCK COMPANY)

We have reviewed the accompanying condensed consolidated balance sheet of Dubai Islamic Bank (Public Joint Stock Company) and its Subsidiaries as of 31 March 2006 and the related condensed consolidated statements of income, cash flows and changes in equity for the three month period then ended. These interim condensed consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Bank personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion. The comparative figures of 2005 in the income statement and the statement of cash flows have not been reviewed or audited by us.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standard 34.

Ernst & Young

Signed by
Edward B Quinlan
Partner
Registration No. 93

26 April 2006

Dubai

# CONDENSED CONSOLIDATED INCOME STATEMENT

Period ended 31 March 2006 (Unaudited)

| | Note | Three months ended 31 March 2006 AED'000 | Three months ended 31 March 2005 AED'000 |
|---|---|---|---|
| **INCOME** | | | |
| Income from Islamic financing and investing assets | | **429,659** | 231,501 |
| Income from international murabahat, short term | | **106,119** | 48,078 |
| Income from investment properties | | **75,851** | 17,731 |
| Income from sale of development properties, net | | **33,103** | 1,667 |
| Commissions, fees and foreign exchange income | | **244,510** | 110,432 |
| Other income | | **5,063** | 2,525 |
| **TOTAL INCOME** | | **894,305** | 411,934 |
| **EXPENSES** | | | |
| General and administrative expenses | | **(216,792)** | (78,382) |
| Depreciation of investment properties | | **(2,757)** | (2,820) |
| Recovery of / (additions to) provisions for impairment | | **20,360** | (25,000) |
| **TOTAL EXPENSES** | | **(199,189)** | (106,202) |
| Profit before depositors' share and tax | | **695,116** | 305,732 |
| Depositors' share of profits | | **(355,367)** | (153,814) |
| Profit for the period before tax | | **339,749** | 151,918 |
| Income tax expense | | **(5,078)** | - |
| **PROFIT FOR THE PERIOD** | | **334,671** | 151,918 |
| Attributable to: | | | |
| Shareholders of the parent | | **332,037** | 151,918 |
| Minority interests | | **2,634** | - |
| | | **334,671** | 151,918 |
| Basic earnings per share attributable to the shareholders of the parent (Dirham) | 3 | **0.18** | 0.08 |

# CONDENSED CONSOLIDATED BALANCE SHEET

At 31 March 2005 (Unaudited)

| | Note | *31 March 2006 AED'000* | *Audited 31 December 2005 AED'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Central Banks | | **2,660,399** | 3,166,104 |
| Balances and deposits with banks | | **849,646** | 829,116 |
| International murabahat, short term | | **10,631,460** | 5,657,841 |
| Islamic financing and investing assets | 2 | **42,988,768** | 28,305,912 |
| Development properties | | **614,074** | 543,160 |
| Investment properties | | **738,922** | 749,285 |
| Investments in associates | | **84,688** | 86,644 |
| Other investments | | **2,534,927** | 2,012,758 |
| Receivables and other assets | | **1,859,923** | 1,203,374 |
| Fixed assets | | **408,584** | 401,765 |
| Goodwill | | **42,320** | 42,320 |
| **Total assets** | | **63,413,711** | 42,998,279 |
| **LIABILITIES** | | | |
| Customers' deposits | | **35,343,744** | 33,391,950 |
| Due to banks and other financial institutions | | **4,576,031** | 4,099,357 |
| Other liabilities | 2 | **19,340,260** | 1,628,155 |
| Accrued Zakat | | **3,468** | 39,612 |
| **Total liabilities** | | **59,263,503** | 39,159,074 |
| **Shareholders' equity** | | | |
| Attributable to equity holders of the parent: | | | |
| Share capital | | **1,800,000** | 1,500,000 |
| ESOP shares | | **-** | (8,226) |
| Statutory reserve | | **731,700** | 731,700 |
| Donated land reserve | | **286,951** | 286,951 |
| General reserve | | **595,000** | 595,000 |
| Exchange translation reserve | | **9,586** | 8,320 |
| Cumulative changes in fair value | | **259,400** | - |
| Retained earnings | | **340,202** | 5,460 |
| Proposed dividends | | **-** | 598,354 |
| | | **4,022,839** | 3,717,559 |
| Minority interests | | **127,369** | 121,646 |
| **Total equity** | | **4,150,208** | 3,839,205 |
| **TOTAL LIABILITIES AND EQUITY** | | **63,413,711** | 42,998,279 |
| Contingent liabilities | 4 | **8,722,063** | 8,081,461 |

H. E. Dr. Mohammad K. Kharbash
Chairman
26 April 2006

H. E. Sultan Saeed Al Mansouri
Deputy Chairman
26 April 2006

Saad Abdul Razak
Chief Executive Officer
26 April 2006

Dubai Islamic Bank (Public Joint Stock Company) and Subsidiaries

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Period ended 31 March 2006 (Unaudited)

| | *Three months ended 31 March* 2006 AED'000 | 2005 AED'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **339,749** | 151,918 |
| Adjustments for: | | |
| Recovery of/(additions to) provisions for impairment | **(20,360)** | 25,000 |
| Depreciation of investment properties | **2,757** | 2,820 |
| Depreciation of fixed assets | **10,852** | 4,268 |
| Revaluation of investments at fair value through income statement | **44,627** | (36,200) |
| Gain on sale of investment properties | **(58,842)** | (2,947) |
| Income from sale of development properties | **(33,103)** | (1,667) |
| Dividend income | **(20,501)** | (392) |
| Cost of share based payments | **4,351** | - |
| | **269,530** | 142,800 |
| Changes in operating assets and liabilities | | |
| Trading investments | **(16,153)** | - |
| Islamic financing and investing assets | **(14,662,496)** | 945,651 |
| Receivables and other assets | **(656,549)** | (532,147) |
| Customers' deposits | **1,951,794** | 908,798 |
| Due to banks and other financial institutions | **476,674** | (1,028,634) |
| Other liabilities | **17,712,105** | 47,353 |
| Accrued Zakat | **(36,144)** | (14,877) |
| Net cash from operating activities | **5,038,761** | 468,944 |
| **INVESTING ACTIVITIES** | | |
| Purchase of held to maturity investments | **(5,912)** | 2,530 |
| Purchase of investments at fair value through income statement | **(26,440)** | (123,052) |
| Purchase of available for sale investments | **(258,891)** | (688,892) |
| Proceeds from sale of development properties | **40,620** | 3,331 |
| Proceeds from disposal of investment properties | **99,748** | 157,278 |
| Purchase of investment properties | **(33,300)** | (157,818) |
| Purchase of development properties | **(78,431)** | - |
| Dividend income | **20,501** | 392 |
| Investments in associates | **1,956** | 20,515 |
| Purchase of fixed assets | **(22,859)** | - |
| Proceeds from disposal of fixed assets | **7,192** | 8,377 |
| Exchange and other adjustments | **(2,727)** | 2,250 |
| Net cash used in investing activities | **(258,543)** | (775,089) |
| **FINANCING ACTIVITIES** | | |
| Dividends paid | **(300,000)** | 299,177 |
| Received on vesting of shares | **8,226** | - |
| Net cash used in financing activities | **(291,774)** | (299,177) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **4,488,444** | (605,322) |
| Cash and cash equivalents at the beginning of the period | **9,606,583** | 9,749,062 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **14,095,027** | 9,143,740 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 31 March 2006 (Unaudited)

| | *Attributable to equity holders of the parent* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital AED'000* | *ESOP shares AED'000* | *Statutory reserve AED'000* | *Donated land reserve AED'000* | *General reserve AED'000* | *Cumulative changes in fair value AED'000* | *Exchange translation reserve AED'000* | *Retained earnings AED'000* | *Proposed scrip dividends AED'000* | *Proposed cash dividends AED'000* | *Total AED'000* | *Minority interests AED'000* | *Total equity AED'000* |
| As at 31 December 2005 | 1,500,000 | (8,226) | 731,700 | 286,951 | 595,000 | - | 8,320 | 5,460 | 299,177 | 299,177 | 3,717,559 | 121,646 | 3,839,205 |
| Income and expense for the period recognised directly in equity | - | - | - | - | - | 259,400 | 1,266 | - | - | - | 260,666 | 3,089 | 263,755 |
| Profit for the period | - | - | - | - | - | - | - | 332,037 | - | - | 332,037 | 2,634 | 334,671 |
| Total income and expense for the period | - | - | - | - | - | 259,400 | 1,266 | 332,037 | - | - | 592,703 | 5,723 | 598,426 |
| Issue of shares | 300,000 | - | - | - | - | - | - | - | (300,000) | - | - | - | - |
| Shares allocated | - | 8,226 | - | - | - | - | - | - | - | - | 8,226 | - | 8,226 |
| Dividends paid - 2005 | - | - | - | - | - | - | - | - | - | (300,000) | (300,000) | - | (300,000) |
| Transfers | - | - | - | - | - | - | - | (1,646) | 823 | 823 | - | - | - |
| Cost of share based payments | - | - | - | - | - | - | - | 4,351 | - | - | 4,351 | - | 4,351 |
| **As of 31 March 2006** | **1,800,000** | - | **731,700** | **286,951** | **595,000** | **259,400** | **9,586** | **340,202** | - | - | **4,022,839** | **127,369** | **4,150,208** |

The attached notes 1 to 5 form part of these financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 31 March 2006 (Unaudited)

| | | | | | | *Attributable to equity holders of the parent* | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Share capital AED'000* | *ESOP shares AED'000* | *Statutory reserve AED'000* | *Donated land reserve AED'000* | *General reserve AED'000* | *Cumulative changes in fair value AED'000* | *Exchange translation reserve AED'000* | *Retained earnings AED'000* | *Proposed scrip dividends AED'000* | *Proposed cash dividends AED'000* | *Total AED'000* | *Minority interests AED'000* | *Total equity AED'000* |
| As at 31 December 2004 | 1,500,000 | (8,226) | 625,566 | 284,701 | 280,000 | - | - | 5,378 | - | 299,177 | 2,986,596 | 10 | 2,986,606 |
| Profit for the period | - | - | - | - | - | - | - | 151,918 | - | - | 151,918 | - | 151,918 |
| Total income and expense for the period | | - | - | - | - | - | - | 151,918 | - | - | 151,918 | - | 151,918 |
| Dividends paid - 2004 | - | - | - | - | - | - | - | - | - | (299,177) | (299,177) | - | (299,177) |
| Not movement in donated land reserve | - | - | - | 2,250 | - | - | - | - | - | - | 2,250 | - | 2,250 |
| As of 31 March 2005 | 1,500,000 | (8,226) | 625,566 | 286,951 | 280,000 | - | - | 157,296 | - | - | 2,841,587 | 10 | 2,841,597 |

The attached notes 1 to 5 form part of these financial statements.

## 1 ACTIVITIES

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

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

| | *Subsidiaries* | *Principal activity* | *Registered Country of incorporation* | *percentage of equity 2006* | *2005* |
|---|---|---|---|---|---|
| 1. | Bank of Khartoum | Banking | Sudan | **60.0%** | - |
| 2. | Dubai Islamic Bank Pakistan Ltd. | Banking | Pakistan | **100.0%** | - |
| 3. | Islamic Financial Services L.L.C. | Brokerage services | UAE | **95.5%** | 95.5% |
| 4. | Deyaar Development P.S.C. | Real estate development | UAE | **95.5%** | 95.5% |
| 5. | Omega Engineering L.L.C. | Mechanical, electrical &plumbing | UAE | **55.0%** | - |
| 6 | Al Tanmyah Services L.L.C. | Labour services | UAE | **99.5%** | 99.5% |
| 7. | Naseej Fabric Manufacturing L.L.C. | Textile Manufacturing | UAE | **98.0%** | 98.0% |
| 8. | DIB Printing Press L.L.C. | Printing | UAE | **99.5%** | 99.5% |
| 9. | Al Tatweer Al Hadith Real Estate | Real estate development | Egypt | **96.0%** | - |
| 10. | Al Tameer Modern Real Estate Investment | Real estate development | Egypt | **96.0%** | - |
| 11. | Al Tanmia Modern Real Estate Investment | Real estate development | Egypt | **100.0%** | - |
| 12. | Emirates Trading Center L.L.C. | Trading in motor vehicles | UAE | **100.0%** | 100.0% |
| 13. | Islamic Investment Company P.S.C. | Financing & investing | UAE | **95.5%** | 95.5% |
| 14. | Al Ahlia Aluminum Company L.L.C. (under liquidation) | Aluminum fixtures | UAE | **75.5%** | 75.5% |
| 15. | Zone One Real Estate Management Co. | Investments in real estate | Cayman Islands | **100.0%** | 100.0% |
| 16. | Zone Two Real Estate Management Co. | Investments in real estate | Cayman Islands | **100.0%** | 100.0% |
| 17. | Al Islami Trade Finance FZ L.L.C. | Investments | UAE | **100.0%** | 100.0% |
| 18. | DIB Lease One Ltd. | Investments | Bahamas | **100.0%** | 100.0% |
| 19. | DIB Lease One (Dublin) Ltd. | Investments | Ireland | **100.0%** | 100.0% |
| 20. | Gulf Atlantic FZ L.L.C. | Investments | UAE | **100.0%** | 100.0% |
| 21. | Al Islami Oceanic Shipping Co FZ L.L.C | Investments | UAE | **100.0%** | 100.0% |
| 22. | DIB Tower SAL | Investment in real estate | Lebanon | **100.0%** | 100.0% |
| 23. | United Mineral Water P.S.C. | Bottling of natural water | Egypt | - | 88.2% |

In addition to the registered ownership described above, the remaining equity in the entities 3 to 10 and 13 is also held by the Bank beneficially through nominee arrangements.

| | *Associates* | *Country of Principal activity* | *Percentage incorporation* | *of equity 2006* | *2005* |
|---|---|---|---|---|---|
| 24. | Bosnia International Bank | Banking | Bosnia | **27.3%** | 27.3% |
| 25. | Liquidity Management Center (B.S.C) | Brokers | Bahrain | **25.0%** | 25.0% |
| 26. | Emirates National Securitization Corporation | Securitization | Cayman Islands | **35.0%** | 35.0% |
| 27. | BBI Leasing and Real Estate L.L.C. | Real estate development | Bosnia | **27.3%** | - |
| 28. | Dubai Islamic Insurance & Reinsurance Co. (AMAN) | Islamic insurance | UAE | - | 25.0% |

**1 ACTIVITIES** - continued

| *Joint ventures* | *Principal activity* | *Country of incorporation* | *Percentage of equity* 2006 | 2005 |
|---|---|---|---|---|
| 29. Al Bustan Center Company L.L.C. | Rental of apartments and shops | UAE | **50.0%** | 50.0% |
| 30. Gulf Tankers L.L.C. | Cargo and transport | UAE | **50.0%** | 50.0% |
| 31. Genyx L.L.C. | Training | UAE | **50.0%** | 50.0% |
| 32. Tamweel L.L.C | Real estate financing | UAE | - | 50.0% |

The entities listed under 13 and 30 did not conduct any operations during the current or previous periods. The Group's shareholding in the entity listed under 28 has decreased below 20% and hence, for the quarter ended 31 March 2006, it is no longer considered an associate. Similarly, Tamweel LLC has not been dealt with as a joint venture for the quarter ended 31 March 2006, as the Group's interest in Tamweel LLC has decreased below 20% following the increase in the capital of the Company through a public offering of shares which opened for subscription on 27 February 2006. These are now classified as available for sale investments.

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

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

**2 ACCOUNTING POLICIES**

The interim condensed consolidated financial statements of the Bank are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2005.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In addition, results for the 3 months ended 31 March 2006 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2006.

During the quarter ended 31 March 2006, the Bank participated as a receiving bank in initial public offering (IPO) of shares of companies in the UAE and also provided financing facilities to its customers in this connection. The IPO subscription period ended in April 2006. Islamic financing and investing assets at 31 March 2006 include AED 15,174 million related to these IPOs. Similarly, other liabilities include AED 18,860 million collected by the Bank as part of the IPOs. These accounts were settled during the first week of April 2006.

**3 EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing the profit attributable to the shareholders' of the parent for the period of AED 332,037,000 (2005: AED 151,918,000) by the weighted average number of shares outstanding during the period of 1,800,000,000 of AED 1 each (2005: 1,800,000,000 of AED 1 each).

The earnings per share reported for 2005 has been adjusted for the effect of the share split during 2005 as the Shareholders of the Bank resolved at the Extraordinary General Meeting of the shareholders held on 12 July 2005 to split the nominal value of each share from AED 10 to AED 1 per share, thereby increasing the number of issued shares from 150,000,000 shares to 1,500,000,000 shares. It has also been adjusted for the effect of the bonus shares issued on 4 March 2006.

No figures for diluted earnings per share have been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

## 4 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

| | ***31 March 2006 AED'000*** | *Audited 31 December 2005 AED'000* |
|---|---|---|
| ***Commitments on behalf of customers:*** | | |
| Letters of guarantee | **6,794,012** | 6,230,996 |
| Letters of credit | **1,928,051** | 1,850,465 |
| | **8,722,063** | 8,081,461 |
| ***Commitments*** | | |
| Future capital expenditure commitments | **164,984** | 146,223 |
| Other commitments | **859,138** | 859,138 |

## 5 SEGMENTAL INFORMATION

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

| **31 March:** | *Financing activities* | | *Investing activities* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2006*** | *2005* | ***2006*** | *2005* | ***2006*** | *2005* |
| | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* |
| Segment revenue | **483,574** | 243,263 | **410,731** | 168,671 | **894,305** | 411,934 |
| Inter-segment adjustment | **296,162** | 157,967 | **(296,162)** | (157,967) | **-** | - |
| | **779,736** | 401,230 | **114,569** | 10,704 | **894,305** | 411,934 |
| Profit before depositors' share and tax | | | | | **695,116** | 305,732 |
| Depositors' share of profit | | | | | **(355,367)** | (153,814) |
| Profit for the period before tax | | | | | **339,749** | 151,918 |
| Income tax expense | | | | | **(5,078)** | - |
| Profit for the period | | | | | **334,671** | 151,918 |

| | *Financing activities* | | *Investing activities* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2006*** | *2005* | ***2006*** | *2005* | ***2006*** | *2005* |
| | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* |
| Segment assets | **34,792,550** | 22,665,669 | **28,621,161** | 7,715,324 | **63,413,711** | 30,380,993 |
| Segment liabilities and equity | **39,504,486** | 29,978,834 | **23,909,225** | 402,159 | **63,413,711** | 30,380,993 |

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

| | ***Domestic*** | | ***International*** | | ***Total*** | |
|---|---|---|---|---|---|---|
| | ***2006*** | *2005* | ***2006*** | *2005* | ***2006*** | *2005* |
| | ***AED 000*** | *AED 000* | ***AED 000*** | *AED 000* | ***AED 000*** | *AED 000* |
| Gross income | **844,129** | 411,934 | **50,176** | - | **894,305** | 411,934 |
| Total assets | **60,862,562** | 30,380,993 | **2,551,149** | - | **63,413,711** | 30,380,993 |
| Capital expenditure | **22,390** | - | **469** | - | **22,859** | - |