DIB TIER 1 SUKUK LTD.

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$1,000,000,000 Tier 1 Capital Certificates

On 19 March 2013 each of DIB Tier 1 Sukuk Ltd. (the **Trustee**) and Dubai Islamic Bank P.J.S.C. (**DIB**) published the prospectus (the **Prospectus**) attached hereto in connection with the issuance by the Trustee of its U.S.$1,000,000,000 Tier 1 Capital Certificates (the **Certificates**).

Application has been made to the Dubai Financial Services Authority (the **DFSA**) for the Certificates to be admitted to the official list of securities maintained by the DFSA and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai.

The DFSA does not accept any responsibility for the content of the information contained in the Prospectus, including the accuracy or completeness of such information, nor has it determined whether the Certificates are Sharia compliant. The liability for the content of the Prospectus lies with the Trustee and DIB. The DFSA has also not assessed the suitability of the Certificates to which the Prospectus relates to any particular investor or type of investor. If you do not understand the contents of the Prospectus or are unsure whether the Certificates to which the Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

The date of this document is 28 March 2013

PROSPECTUS

بنك دبي الإسلامي
Dubai Islamic Bank

DIB TIER 1 SUKUK LTD.

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$1,000,000,000 Tier 1 Capital Certificates

The U.S.$1,000,000,000 Tier 1 Capital Certificates (the "**Certificates**") of DIB Tier 1 Sukuk Ltd. (in its capacity as issuer, the "**Issuer**" and in its capacity as trustee, the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated 20 March 2013 (the "**Issue Date**") entered into between the Trustee, Dubai Islamic Bank PJSC ("**DIB**") and Deutsche Trustee Company Limited as the delegate of the Trustee (the "**Delegate**"). The Certificates confer on the holders of the Certificates from time to time (the "**Certificateholders**") the conditional right to receive certain payments (as more particularly described herein) arising from an undivided ownership interest in the assets of a trust declared by the Trustee pursuant to the Declaration of Trust (the "**Trust**") over the Trust Assets (as defined herein) which will include, *inter alia*, (i) the Mudaraba Assets (as defined herein) and (ii) the Trustee's rights under the Transaction Documents (as defined herein).

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the terms and conditions of the Certificates (the "**Conditions**") on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 20 March 2019 (the "**First Call Date**") at a rate of 6.250 per cent. per annum from amounts of Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as further described below). If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every six years thereafter, equal to the Relevant Six Year Reset Rate (as defined in the Conditions) plus a margin of 4.954 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 20 March and 20 September in each year, commencing 20 September 2013. Payments on the Certificates will be made without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined herein) (the "**Taxes**") to the extent described under Condition 12 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that DIB (as Mudareb) shall have paid Rab-al-Maal Mudaraba Profit and Rab-al-Maal Final Mudaraba Profit (as applicable) (each as defined in the Conditions) equal to such Periodic Distribution Amount pursuant to the terms of the Mudaraba Agreement (as defined in the Conditions). Payments of such profit amounts under the Mudaraba Agreement are subject to mandatory cancellation if a Non-Payment Event (as defined herein) occurs and is continuing, or would occur as a result of such payment, and are otherwise at the sole discretion of DIB (as Mudareb) and are subject to the approval of the Central Bank of the United Arab Emirates (the "**Central Bank**"). Any Periodic Distribution Amounts not paid as aforesaid will not accumulate and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

The Certificates are perpetual securities and have no fixed or final redemption date. Unless the Certificates have previously been redeemed or purchased and cancelled as provided in the Conditions, the Trustee (but only upon the instructions of DIB (acting in its sole discretion)) shall redeem the Certificates on the First Call Date or on any Periodic Distribution Date falling after the First Call Date in accordance with Condition 10.1(b) (*Trustee's Call Option*). In addition, upon the occurrence of a Tax Event or a Capital Event (each as defined in the Conditions), the Certificates may be redeemed in whole (but not in part), or the terms thereof may be varied (at the option of the Trustee (but only upon the instructions of DIB (acting in its sole discretion)), in each case at any time on or after the Issue Date in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.l(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

The Certificates may only be redeemed in accordance with Condition 10 (*Redemption and Variation*) and Condition 11 (*Dissolution Events and Winding-up*). Upon the occurrence of a Dissolution Event (as defined in the Conditions), the Delegate shall (subject to Condition 11.1 (*Dissolution Events*)) give notice of the occurrence of such event to the Certificateholders in accordance with Condition 15 (Notices) with a request to the Certificateholders to issue a Dissolution Request (as defined in the Conditions) to the Delegate. Upon the receipt of a Dissolution Request in writing in accordance with Condition 11.1 (*Dissolution Events*) or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 11.3(c) (*Entitlement of Trustee or Delegate*)) give notice to the Trustee of the Dissolution Request whereupon (and following the liquidation of the Mudaraba) the aggregate face amount of the outstanding Certificates together with any Outstanding Payments (as defined in the Conditions) shall become immediately due and payable and, upon receipt of such notice, the Trustee and/or the Delegate shall subject to Condition 11.3 (*Winding-up, dissolution or liquidation*) take the actions referred to therein.

The Certificates will be limited recourse obligations of the Trustee. An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Risk Factors*".

This Prospectus has been approved by the Central Bank of Ireland (the "**Irish Central Bank**") as competent authority under Directive 2003/71/EC, as amended (the "**Prospectus Directive**"). The Irish Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Regulated Market**"). Such approval relates only to the Certificates which are to be admitted to trading on the regulated market of the Irish Stock Exchange for the purposes of Directive 2004/39/EC (such regulated market being a "**MiFID Regulated Market**") and/or which are to be offered to the public in any Member State of the European Economic Area.

References in this Prospectus to Certificates being listed (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and admitted to trading on the Regulated Market or, as the case may be, another MiFID Regulated Market.

The Certificates will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or before the Issue Date with, and registered in the name of a nominee for a common depositary (the "**Common Depositary**") for, Euroclear Bank S.A/N.V. ("**Euroclear**") and Clearstream Banking, *societe anonyme* ("**Clearstream, Luxembourg**").

Joint Lead Managers

Dubai Islamic Bank PJSC **Emirates NBD Capital** **HSBC**
National Bank of Abu Dhabi **Standard Chartered Bank**

Co-Lead Managers

Abu Dhabi Islamic Bank **Barwa Bank** **Sharjah Islamic Bank**

The date of this Prospectus is 19 March 2013

This Prospectus comprises a prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, the Trustee, DIB, DIB and its subsidiaries and affiliates taken as a whole and the Certificates which, according to the particular nature of the Issuer, the Trustee, DIB and of the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Trustee and DIB and of the Certificates.

The Issuer, the Trustee and DIB accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer, the Trustee and DIB, each having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information under the headings "*Risk Factors*", "*Description of Dubai Islamic Bank PJSC*", "*Overview of the United Arab Emirates*" and "*The United Arab Emirates Banking Sector and Regulations*" has been extracted from information provided by: (i) the Central Bank, the Real Estate Regulatory Authority of Dubai, Colliers International and Jones Lang La Salle, in the case of "*Risk Factors*"; (ii) the UAE and Dubai governments, and the Central Bank, in the case of "*Description of Dubai Islamic Bank PJSC*"; (iii) the UAE National Statistics Bureau, the International Monetary Fund, the Organisation of Oil Exporting Countries ("**OPEC**"), the Central Bank, and the UAE and Dubai governments, in the case of "*Overview of the United Arab Emirates*"; and (iv) the Abu Dhabi Securities Exchange, the UAE National Statistics Bureau, the Dubai Financial Market and the Central Bank, in the case of "*The United Arab Emirates Banking Sector and Regulations*" and, in each case, the relevant source of such information is specified where it appears under those headings. Each of the Issuer, the Trustee and DIB confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

None of the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Paying Agents (as defined in the Agency Agreement) has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by any of them as to the accuracy, adequacy, reasonableness or completeness of the information contained in this Prospectus or any other information provided by the Issuer, the Trustee or DIB in connection with the Certificates.

To the fullest extent permitted by law, the Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Manager or on its behalf in connection with the Issuer, the Trustee, DIB or the issue and offering of the Certificates. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by the Issuer, the Trustee, DIB or the Delegate to give any information or to make any representation not contained in or not consistent with this Prospectus or any other document entered into in relation to the offering of the Certificates and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Trustee, DIB, the Delegate or any of the Managers. None of the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate nor the Paying Agents or any of their respective affiliates make any representation or warranty or accept any liability as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of the Certificates shall, in any circumstances, constitute a representation or create any implication that the information contained in this Prospectus is correct subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or the financial or trading position of the Issuer, the Trustee or DIB since the date hereof or, if later, the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Certificates is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

No comment is made, or advice given by, the Issuer, the Trustee, the Delegate, DIB or the Managers or, any of their directors, affiliates, advisers or agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under applicable or similar laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Moody's Investors Services Limited ("**Moody's**") has rated the UAE, see "*Overview of the United Arab Emirates*". Each of Fitch Ratings Limited ("**Fitch**") and Moody's has rated DIB, see "*Risk Factors – Risk Factors relating to DIB – DIB's ratings are subject to change*".

Fitch is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa and Sharia Supervisory Board of DIB in liaison with Dar Al Sharia Legal & Financial Consultancy LLC, the HSBC Amanah Central Shariah Committee and the *Shari'a* Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with *Shari'a* principles.

Each prospective investor is advised to consult its own tax adviser, legal adviser and business adviser as to tax, legal, business and related matters concerning the purchase of any Certificates.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Issuer, the Trustee, DIB, the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Paying Agents represents that this Prospectus may be lawfully distributed, or that Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Trustee, DIB, the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Paying Agents which is intended to permit a public offering of the Certificates or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Certificates may not be offered or sold, directly or indirectly, and neither this

Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer, the Trustee, DIB and the Managers to inform themselves about and to observe any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of the Certificates in the United States, the United Kingdom, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Cayman Islands, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar, Hong Kong, Singapore, Malaysia and Switzerland. For a description of the restrictions on offers, sales and deliveries of Certificates and on the distribution of this Prospectus and other offering material relating to the Certificates, see "*Subscription and Sale*".

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Certificates and should not be considered as a recommendation by the Issuer, the Trustee, DIB, the Delegate, the Paying Agents, the Managers, or any of their directors, affiliates, advisers, agents or any of them that any recipient of this Prospectus should subscribe for, or purchase, the Certificates. Each recipient of this Prospectus shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Trustee and DIB. None of the Managers, nor any of their directors, affiliates, advisers, agents, the Delegate or the Paying Agents accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer, the Trustee or DIB in connection with the Certificates.

The Certificates may not be a suitable investment for all investors. Each potential investor in Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

No comment is made or advice given by the Issuer, the Trustee, DIB, the Delegate, the Managers or the Paying Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

Stabilisation

In connection with the issue of the Certificates, HSBC Bank plc (the "**Stabilising Manager**") (or persons acting on behalf of the Stabilising Manager) may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager shall act as principal and not as agent of the Trustee or DIB. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the Issue Date and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Certificates. The Stabilising Manager (or persons acting on behalf of the Stabilising Manager) must conduct such stabilisation in accordance with all applicable laws and rules.

Cautionary note regarding forward looking statements

Some statements in this Prospectus may be deemed to be forward looking statements. The words "anticipate", "believe", "expect", "plan", "intend", "targets", "aims", "seeks", "estimate", "project", "will", "would", "may", "could", "continue", "should" and similar expressions are intended to identify forward looking statements. All statements other than statements of historical fact included in this Prospectus, including, without limitation, those regarding the financial position of DIB, or the business strategy, management plans and objectives for future operations of DIB, are forward looking statements. These forward looking statements involve known and unknown risks, uncertainties and other factors, which may cause DIB's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of Dubai Islamic Bank PJSC*" and other sections of this Prospectus. DIB has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These forward looking statements are based on numerous assumptions regarding DIB's present, and future, business strategies and the environment in which DIB expects to operate in the future. Important factors that could cause DIB's actual results, performance or achievements to differ materially from those in the forward looking statements are discussed in this Prospectus (see "*Risk Factors*").

The risks and uncertainties referred to above include:

- macro-economic and financial market conditions and, in particular, the global financial crisis;
- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions (in particular in relation to the real estate sector), the impact of provisions and impairments and concentration of DIB's portfolio of Islamic financing and investing assets;
- liquidity risks, including the inability of DIB to meet its contractual and contingent cash flow obligations or the inability to fund its operations; and
- changes in profit rates and other market conditions.

Forward looking statements speak only as at the date of this Prospectus and, without prejudice to any requirements under applicable laws and regulations, the Issuer, the Trustee and DIB expressly disclaim any obligation or undertaking to publicly update or revise any forward looking statements in this Prospectus to reflect any change in the expectations of the Issuer, the Trustee or DIB or any change in events, conditions or circumstances on which these forward looking statements are based. Given the uncertainties of forward looking statements, the Issuer, the Trustee and DIB cannot assure potential investors that projected results or events will be achieved and the Issuer, the Trustee and DIB caution potential investors not to place undue reliance on these statements.

Presentation of certain financial and other information

The historical financial information presented in this Prospectus is based on DIB's audited consolidated financial statements as at and for the financial years ended 31 December 2011 (together with the audit report thereon the "**2011 Financial Statements**") and 31 December 2012 (together with the audit report thereon the "**2012 Financial Statements**" and, together with the 2011 financial statements, the "**Financial Statements**"). The Financial Statements have been audited in accordance with International Standards on Auditing by Deloitte & Touche (M.E.) ("**Deloitte**"), without qualification as stated in their reports appearing herein.

The financial statements relating to DIB included in this Prospectus are the 2011 Financial Statements and the 2012 Financial Statements each prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**").

DIB publishes its financial statements in UAE Dirham.

DIB restated its consolidated financial statements as at and for the year ended 31 December 2011 in the 2012 Financial Statements. The reasons for, and effect of, this reclassification are set out in Note 54 of the 2012 Financial Statements. All financial information relating to DIB as at and for the year ended 31 December 2011 set out in this Prospectus has been extracted from the restated 2011 financial information contained in the 2012 Financial Statements and not from DIB's audited consolidated financial statements as at and for the year ended 31 December 2011 as originally published.

DIB restated its consolidated financial statements as at and for the year ended 31 December 2010 in the 2011 Financial Statements as a result of an adjustment in DIB's share of a loss incurred by one of its associates for the year ended 31 December 2010 (see Note 59 of the 2011 Financial Statements). All financial information relating to DIB as at and for the year ended 31 December 2010 set out in this Prospectus has been extracted from the restated 2010 financial information contained in the 2011 Financial Statements and not from DIB's audited consolidated financial statements as at and for the financial year ended 31 December 2010 as originally published.

Due to reclassifications made in connection with the preparation of the 2012 Financial Statements, including, without limitation, with respect to balance sheet reclassifications, certain financial information included in this Prospectus for the year ended 31 December 2010 is not comparable in all respects to the audited consolidated financial statements for the years ended 31 December 2011 and 2012, also included in this Prospectus.

The reclassifications set out below were undertaken during 2012 and have an impact on comparative information for 2010:

- Reclassification of certain "Islamic investing and financing assets" to "Receivables and other assets", that do not meet the definition of investing and financing assets. Accordingly, related provision and collateral information would also need to be reclassified; and

- Profit receivables from investing and financing assets and sukuks have been reclassified to respective balance sheet lines from receivables and other assets in order to conform to the requirements of IFRS 7, Financial Instruments Disclosure.

For the impact of the reclassifications on the comparative periods of the consolidated balance sheet, refer to Note 54.2 of the 2012 Financial Statements, set out elsewhere in this Prospectus.

	As previously reported as at 31 December 2010	Reclassi-fications	As restated as at 1 January 2011
		(AED millions)	
Investing and Financing Assets, net	57,171	(63)	57,108
Investments in Islamic Sukuks	8,200	69	8,269
Receivables and other Assets	2,297	(6)	2,291
Customer Deposits	63,447	237	63,684
Payables and other liabilities	3,680	(237)	3,443

In addition, the following secondary lines set out in the notes of the 2010 Financial Statements would also require adjustment in order to be comparable with the 2011 and 2012 Financial Statements:

	As previously reported as at 31 December 2010	Reclassi-fications	As restated as at 1 January 2011
		(AED millions)	
Investing and Financing Assets – gross	60,128	(485)	59,643
Provision for impairment for investing and financing assets	2,957	(422)	2,535
Gross amount of individually impaired investing and financing assets	5,012	(1,249)	3,763
Fair value of collaterals for individually impaired financial assets	3,882	(700)	3,182

Certain Defined Terms

Capitalised terms which are used but not defined in any section of this Prospectus will have the meaning attributed thereto in the Conditions or any other section of this Prospectus. In addition, the following terms as used in this Prospectus have the meanings defined below:

- references to "**Abu Dhabi**" herein are to the Emirate of Abu Dhabi;
- references to the "**Bank**" herein are to DIB;
- references to "**Dubai**" herein are to the Emirate of Dubai;
- references to "**GCC**" are to the Gulf Co-Operation Council;
- references to "**Group**" are to DIB and its consolidated subsidiaries and associates taken as a whole;
- references to a "**Member State**" herein are references to a Member State of the European Economic Area;
- references to the "**MENA region**" are to the Middle East and North Africa region; and
- references to the "**UAE**" herein are to the United Arab Emirates.

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Prospectus have been extracted from public sources identified in this Prospectus. Neither the Trustee nor DIB accepts responsibility for the factual correctness of any such statistics or information but both the Trustee and DIB accept responsibility for accurately extracting and transcribing such statistics and information and believe, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at and for the periods with respect to which they have been presented.

The statistical information in the section entitled "*Overview of the United Arab Emirates*" has been accurately reproduced from a number of different identified sources. All statistical information provided in that section may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. GDP data is not final and may be subject to revision in future periods and certain other historical GDP data set out in that section may also be subject to future adjustment.

All references in this document to "**U.S. dollars**", "**U.S.$**", "**USD**" and "**$**" are to the lawful currency of the United States of America and references to "**AED**", "**dirham**" and "**UAE Dirham**" are to the lawful currency of the United Arab Emirates. The UAE Dirham has been pegged to the U.S. dollar since 22 November 1980. The mid-point between the official buying and selling rates for the UAE Dirham is at a fixed rate of AED 3.6725 = U.S.$1.00. All references to "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in the Prospectus. Accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Information contained in any website referred to herein does not form part of this Prospectus.

NOTICE TO U.K. RESIDENTS

The Certificates represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the United Kingdom Financial Services Authority. Accordingly, this Prospectus is not being distributed to and must not be passed on to the general public in the United Kingdom.

The distribution in the United Kingdom of this Prospectus and any other marketing materials relating to the Certificates (A) if effected by a person who is not an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"), and (ii) persons falling within any of the categories of persons described in Article 49(2) (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (B) if effected by a person who is an authorised person under the FSMA, is being addressed to, or directed at, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the "**Promotion of CISs Order**"), (ii) persons falling within any of the categories of person described in Article 22(a)-(d) (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Prospectus or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom in the Certificates are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in the Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

Any individual intending to invest in the Certificates should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

CAYMAN ISLANDS NOTICE

No invitation may be made to any member of the public of the Cayman Islands to subscribe for the Certificates.

THE KINGDOM OF SAUDI ARABIA NOTICE

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Prospectus he or she should consult an authorised financial adviser.

NOTICE TO BAHRAIN RESIDENTS

In relation to investors in the Kingdom of Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain ("**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside Bahrain.

The CBB has not reviewed, approved or registered the Prospectus or related offering documents and it has not in any way considered the merits of the securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this document and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this document. No offer of securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Prospectus does not and is not intended to constitute an offer, sale or delivery of the Certificates under the laws of the State of Qatar and has not been and will not be reviewed or approved by or registered with the Qatar Financial Markets Authority or Qatar Central Bank. The Certificates are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF MALAYSIA

The Certificates may not be offered for subscription or purchase and no invitation to subscribe for or purchase the Certificates in Malaysia may be made, directly or indirectly, and this Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia ("**CMSA**").

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Issuer, the Trustee or DIB and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Prospectus.

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RISK FACTORS

The purchase of the Certificates may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in the Certificates. Before making an investment decision, prospective purchasers of the Certificates should consider carefully, in light of their own financial circumstances and investment objectives, all of the information in this Prospectus.

Each of the Issuer and DIB believes that the factors described below represent the principal risks inherent in investing in the Certificates but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and neither the Trustee nor DIB represents that the statements below regarding the risks of holding any Certificate are exhaustive.

Although the Issuer and DIB believe that the various structural elements described in this Prospectus lessen some of these risks for Certificateholders, there can be no assurance that these measures will be sufficient to ensure payment to Certificateholders of any Periodic Distribution Amount or the Dissolution Distribution Amount or any other amounts payable in respect of the Certificates on a timely basis or at all. There may also be other considerations, including some which may not be presently known to the Issuer or DIB or which the Issuer or DIB currently deems immaterial, that may impact any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in the Conditions and "Global Certificate" shall have the same meanings in this section.

Risks Relating to the Issuer

The Issuer is an exempted company with limited liability incorporated in the Cayman Islands on 5 February 2013. The Issuer has not as at the date of this Prospectus, and will not, engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee, and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets, including the right to receive amounts paid by the Mudareb under the Mudaraba Agreement.

The ability of the Issuer to pay amounts due on the Certificates will be dependent upon receipt from DIB of amounts paid under the Mudaraba Agreement (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents).

Risks Relating to DIB

General

Investors should note that DIB is a UAE company and is incorporated in and has its operations and the majority of its assets located in the UAE. Accordingly, DIB may not have sufficient assets located outside the UAE to satisfy in whole or part any judgment obtained from a foreign court relating to amounts owing under the Certificates. If investors were to seek enforcement of a foreign judgment in the UAE or to bring proceedings in relation to the Certificates in the UAE, then certain limitations would apply (see "– *Risks relating to enforcement*").

Majority of business in the UAE

Approximately 95 per cent. of DIB's operations and assets are located in the UAE and accordingly its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East generally.

These markets, being emerging markets, are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. The UAE and Middle East markets are subject to greater risks than more developed markets, including in some cases significant legal, economic and political risks. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Political, economic and related considerations

DIB's business is, and will continue to be, affected by economic and political developments in or affecting the UAE and the Middle East and North Africa ("**MENA**") region and investors' reactions to developments in one country may affect securities of issuers in other markets, including the UAE. Approximately 95 per cent. of DIB's operations and interests are located in the UAE, with a particular focus on Dubai. Since 2008, there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE, especially in Dubai and to a lesser extent in Abu Dhabi. Consequently, certain sectors of the GCC economy, such as financial institutions, that had benefitted from previous high rates of growth, have been materially adversely affected since 2008. Given that DIB has the majority of its operations in the UAE, its operations have been and may continue to be affected by these economic and political developments impacting the UAE, in particular, the level of economic activity in the UAE, see "*– Financial performance is affected by general economic conditions*".

Although Dubai and the UAE enjoy domestic political stability and generally healthy international relations, as a country located in the MENA region, there is a risk that regional geopolitical instability could impact the country. In particular, since early 2011 there has been political unrest in a range of countries in the MENA region, including Algeria, Bahrain, Egypt, Libya, Oman, Saudi Arabia, Syria, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and has given rise to increased political uncertainty across the region. In addition, DIB's wholly-owned subsidiary, DIB Pakistan Ltd., and its associate, the Bank of Khartoum, are, in common with all other industries in the Islamic Republic of Pakistan and Sudan, respectively, affected by the ongoing political uncertainty and civil unrest in those countries. Whilst DIB's business has not been directly impacted by any political unrest to date, it is not possible to predict the occurrence of events or circumstances such as war or hostilities, or the impact of such occurrences, and no assurance can be given that DIB would be able to sustain its current profit levels if adverse political events or circumstances were to occur in the UAE or any other country in which it had material operations at the time.

Since early 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions of varying intensity. These challenging market conditions have resulted at times in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. In addition, since late 2008, property and construction markets in the UAE and a number of other countries in the MENA region have been significantly adversely affected (see further "*– Real estate exposure*"). DIB could be adversely affected further in the future by any deterioration of general economic conditions in the markets in which it operates, as well as by United States, European and international trading market conditions and/or related factors.

Investors should also note that DIB's business and financial performance could be adversely affected by political, economic or related developments both within and outside the MENA region because of interrelationships within the global financial markets.

The economic and/or political factors which could adversely affect DIB's business, financial condition, results of operations and prospects include:

- regional political instability, including government or military regime change, riots or other forms of civil disturbance or violence, including through acts of terrorism;
- military strikes or the outbreak of war or other hostilities involving nations in the region;

- a material curtailment of the industrial and economic infrastructure development that is currently underway across the MENA region;
- government intervention, including expropriation or nationalisation of assets or increased levels of protectionism;
- an increase in inflation and the cost of living;
- cancellation of contractual rights, expropriation of assets and/or inability to repatriate profits and/or dividends;
- increased government regulations, or adverse governmental activities, with respect to price, import and export controls, the environment, customs and immigration, capital transfers, foreign exchange and currency controls, labour policies and land and water use and foreign ownership;
- arbitrary, inconsistent or unlawful government action;
- changing tax regimes, including the imposition of taxes in tax favourable jurisdictions such as the UAE;
- difficulties and delays in obtaining governmental and other approvals for operations or renewing existing ones; and
- inability to repatriate profits or dividends.

There can be no assurance that either the economic performance of, or political stability in, the countries in which DIB currently operates or may in the future operate can or will be sustained. To the extent that economic growth or performance in these countries or the MENA region as a whole slows or begins to decline, or political conditions deteriorate materially in any of those countries, DIB's business, financial condition, results of operations and prospects may be adversely affected.

Financial performance is affected by general economic conditions

Risks arising from changes in credit quality and the recoverability of amounts due from customers and counterparties are inherent in banking and financial institution businesses. In common with other banks and financial institutions in the Gulf Co-operation Council ("**GCC**") region, DIB has suffered a deterioration in its financing portfolio, principally manifested in the form of increases in the level of non-performing financings as a result of such adverse economic conditions (see "*–Business Risks – Credit risk*"). Approximately 95 per cent. of DIB's operations are undertaken in the UAE and, consequently, its operations have been and may continue to be affected by economic developments impacting the UAE, in particular, the level of economic activity in the UAE. Moreover, while the UAE Government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained. Traditionally, the oil and gas industry has been the basis of the development in the GCC regional economy, which means that economic development has been impacted by the general level of oil and gas prices.

DIB uses different hedging strategies to minimise risk, including collateral and insurance (*Takaful*) that are intended to bring the credit risk level to within its strategy and risk appetite. However, there can be no guarantee that such measures will continue to eliminate or reduce such risks and, consequently, DIB's business, financial condition, results of operations and prospects may be adversely affected.

Impact of regulatory changes

DIB is subject to the laws, regulations, administrative actions and policies of the UAE and each other jurisdiction in which it operates. These regulations may limit DIB's activities and changes in supervision and regulation, particularly within the UAE, could affect DIB's business, the products or services offered, the value of its assets and its financial condition. In particular, DIB has been and expects to continue implementing both Basel II and Basel III related guidelines issued by the Central Bank. No assurance can be given that the UAE Government (or the government of any other jurisdiction in which DIB operates) will not implement regulations, fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on DIB's business, reputation, financial condition, results of operations or prospects and thereby affect its ability to make payments in respect of any Certificates.

Business Risks

Risk is inherent in DIB's activities but is managed through a process of ongoing identification, measurement and monitoring, the imposition of risk limits and other controls. DIB is exposed to a number of business related risks including credit risk, market risk (which can be sub-divided into trading and non-trading risks), liquidity risk and legal and operational risk. Any failure by DIB to manage and/or mitigate such risks and/or predict unexpected market events that are beyond the control of DIB could have an adverse effect on its business, results of operations, financial condition and prospects and, consequently, its ability to fulfil its obligations under the Transaction Documents.

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 and is inherent in a wide range of DIB's businesses. Credit risks could arise from a deterioration in the credit quality of specific counterparties of DIB, from a general deterioration in local or global economic conditions or from systemic risks with the financial systems, all of which could affect the recoverability and value of DIB's assets and require an increase in DIB's provisions for the impairment of its assets and other credit exposures which could have a material adverse effect on DIB's business, financial condition, results of operations and prospects.

DIB attempts to control credit risk by implementing a credit risk strategy, monitoring credit exposures (in particular, in relation to those counterparties falling within higher risk rating bands), limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, DIB manages the credit exposure relating to its trading activities by entering into collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure.

DIB has also established a credit quality review process intended to identify at an early stage any possible changes in the creditworthiness of its counterparties. Counterparty limits are established by the use of a credit risk classification system (see "*Description of Dubai Islamic Bank PJSC – Risk Management*"), which assigns each counterparty a risk rating. Such risk ratings are subject to regular revision. The credit quality review process allows DIB to assess any potential loss as a result of the risks to which they are exposed. However, there can be no assurance that such measures will continue to eliminate or reduce credit risk and, should any of these measures fail to operate as intended, DIB's business, results of operations, financial condition and prospects may be adversely affected.

See also "*– DIB's business is subject to concentration risk*" for a description of certain credit risks arising from a concentration of DIB's counterparties in certain economic sectors and, geographically, within the UAE.

Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. DIB's management of market risk is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. DIB uses appropriate models, in accordance with standard market practice, for the valuation of its positions and receives regular market information in order to regulate its market risk. DIB's policies and procedures and its trading limits are set to ensure the implementation of DIB's market risk policy in its day-to-day operations and such operations are reviewed periodically to ensure compliance with internal policies. However, there can be no assurance that such measures will continue to eliminate or reduce market risk and, should any of these measures fail to operate as intended, DIB's business, results of operations, financial condition and prospects may be adversely affected.

Liquidity risk

Liquidity risk is the risk that DIB may be unable to meet its payment obligations when they fall due under normal and stressed circumstances. Liquidity risks could arise from the inability of DIB to anticipate and provide for unforeseen decreases or changes in funding sources which could have adverse consequences on DIB's ability to meet its obligations when they fall due. As is the normal practice in the UAE banking industry, DIB accepts deposits from its customers which are short-term in nature. However, it is also normal in the UAE banking industry for these short-term deposits to be rolled over on their maturity such that, in practice, a significant portion of them have actual maturities of rather longer duration. By contrast, DIB's financings have more diversified maturities. Accordingly, there is a risk that, if a significant number of DIB's customers did not choose to roll over their deposits at any time, DIB could experience difficulties in repaying those deposits. In addition, DIB only has limited Shari'a-compliant products that could be used for short-term liquidity management.

An inability on DIB's part to access funds or to access the markets from which it raises funds may lead to DIB being unable to finance its operations adequately. A dislocated credit environment compounds the risk that DIB will not be able to access funds at favourable commercial terms (including profit payable thereon) (see "*– Political, economic and related considerations*"). These and other factors could also lead creditors to form a negative view of DIB's liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds.

In addition, there are always timing differences between the cash payments DIB owes on its liabilities and the cash payments due to it on its investments. DIB's ability to overcome these cash mismatches may be adversely affected if the fixed income markets were to experience significant liquidity problems. Also, under certain market conditions, DIB could be unable to sell additional products or be unable to sell its portfolio investments in sufficient amounts to raise the cash required to fulfil its obligations under the Transaction Documents when due.

All of the above mentioned factors relating to liquidity risk could have an adverse effect on DIB's business, results of operations, financial condition or prospects.

Legal and operational risk

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by DIB or any of its respective counterparties under the terms of its contractual agreements. Additionally, DIB may face certain legal risks from private actions brought against it. DIB seeks to mitigate this risk through the use of properly reviewed standardised documentation and obtaining appropriate legal advice in relation to its non-standard documentation. However, generally, as a participant in the regulated financial services industry, it is likely that DIB may experience, from time to time, a level of litigation and regulatory scrutiny related to its businesses and operations which may, if adversely determined, have an impact on DIB's business, reputation, financial condition, results of operations and prospects.

Operational risks and losses can result from fraud, error by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements or conduct of business rules, failure of internal systems, equipment and external systems (including those of DIB's respective counterparties or vendors) and the occurrence of natural disasters. DIB has developed a detailed operational risk framework which clearly defines the roles and responsibilities of individuals and units across different functions of DIB that are involved in performing various operational risk management tasks. The operational risk management framework established by DIB is also aimed at ensuring that operational risks within those institutions are properly identified, monitored, managed and reported. DIB will, when appropriate, insure itself against operational risks. Notwithstanding insurance against operational risks, DIB might nonetheless be subject to losses arising from operational risk as a result of inadequate insurance coverage and delays in claim settlement.

There can be no assurance that such measures will continue to eliminate or reduce legal and operational risk and, should any of these measures fail to operate as intended, DIB's business, results of operations, financial condition and prospects may be adversely affected.

Competition

DIB faces competition in all of its business areas from locally incorporated and foreign banks operating in the UAE. DIB also faces competition from both Islamic banks and conventional banks. According to the UAE Central Bank (the "**Central Bank**"), there are currently 51 different banks (comprising 23 locally incorporated banks and 28 foreign banks) licensed to operate inside the UAE (excluding the Dubai International Financial Centre). There are also an increasing number of institutions offering Islamic financial products and services within the UAE. As at 31 December 2012, there were eight Islamic banks, in addition to a number of other financial institutions, offering Islamic products and solutions. Other financial institutions may also consider offering *Shari'a*-compliant products in the future.

The financial institutions market in the UAE has generally been a relatively protected market with high regulatory and other barriers to entry for foreign financial institutions. However, should some of these barriers be removed or eased in the future, either voluntarily or as a result of the UAE's obligations to the World Trade Organisation, the GCC or any other similar entities, this would likely lead to a more competitive environment for DIB and other domestic financial institutions and could have an adverse effect on DIB's business, results of operations, financial condition and prospects.

Dependence on key personnel

DIB's operations depend, in part, on the continued service of senior executives and other qualified personnel as well as its ability to recruit and retain skilled employees. The competition for such employees, especially at the senior management level, in the UAE is intense due to a disproportionately low number of available qualified and/or experienced individuals compared to current demand. If it were unable to retain key members of its senior management and/or hire new qualified personnel in a timely manner, this could have a material adverse effect on the operations of DIB. The loss of any member of the senior management team may result in: (i) a loss of organisational focus; (ii) poor execution of operations; and (iii) an inability to identify and execute potential strategic initiatives. These adverse results could, among other things, reduce potential revenue, which could adversely affect DIB's business, results of operations, financial condition and prospects.

9/11 Litigation

In 2003, DIB was named as a defendant in eight civil lawsuits filed in various federal district courts in the United States that relate to the terrorist attacks on 11 September 2001. The plaintiffs in these lawsuits include victims of the terrorist attacks, the families or estates of deceased victims, the leaseholders of the World Trade Center properties, and certain insurance companies that suffered losses as a result of the attacks. In total, the lawsuits named over 520 defendants. The defendants included, among other entities and organisations, Islamic charities, other major financial institutions in the Middle East (including National Commercial Bank, Al Rajhi Bank, Arab Bank plc and Samba), and individuals, including members of the royal family of Saudi Arabia. The complaints filed in these lawsuits made substantially identical allegations against DIB, including that DIB provided material support and assistance to Al Qaeda and that all defendants knew or should have known they were providing material support, aiding and abetting, and enabling the terrorists that perpetrated the attacks. The plaintiffs have not enumerated all of their alleged damages that they are seeking to recover in these cases.

In December 2003, the United States Judicial Panel on Multi-District Litigation consolidated the actions against DIB and the other defendants and transferred those actions to the Federal District

Court in the Southern District of New York (the "**New York Federal Court**"). In May 2005, DIB filed a motion to dismiss all eight actions with the New York Federal Court. In June 2010, the New York Federal Court denied DIB's motion to dismiss due to the allegations by the plaintiffs that DIB intentionally and knowingly provided support to Al Qaeda.

In August 2010, DIB sought permission from the New York Federal Court to appeal the order denying DIB's motion to dismiss. DIB asserted that the New York Federal Court erred in finding that it had jurisdiction over DIB and that DIB could have caused the plaintiffs' injuries. The motion is fully briefed, and the New York Federal Court may decide it at any time. If it is granted, DIB intends to appeal the order to the U.S. Court of Appeals for the Second Circuit.

The plaintiffs in two of the civil lawsuits against DIB have abandoned their claims against DIB (one in August 2010 and the other in March 2011). Six civil lawsuits against DIB remain pending as of the date of this Prospectus. DIB is currently at the discovery phase of this litigation. During this phase, the parties have exchanged relevant documents (the documentary discovery process having been completed in late 2012) and will have the opportunity to take the testimony of relevant witnesses in depositions under oath. Subsequent to the completion of the documentary discovery process, the plaintiffs made a request to the New York Federal Court for certain additional documents from DIB. Counsel to DIB has objected to this late request and the New York Federal Court is currently reviewing those arguments. The parties have until May 2013 to seek the New York Federal Court's assistance in addressing any possible document production deficiencies. The New York Federal Court has not set a deadline for the completion of depositions, but DIB expects these depositions to take place during June or July 2013.

At the end of this discovery stage, DIB can seek its dismissal from all of the civil lawsuits by moving for summary judgment. To obtain such summary judgment, DIB must show that it is entitled to dismissal because the evidence uncovered during discovery would not permit a fact finder to hold DIB liable for damages.

DIB believes that it has meritorious defences to these claims, has defended itself and intends to continue to defend itself vigorously. No provision has been made as at 31 December 2012 in respect of any outstanding 9/11 legal proceedings against DIB as professional advice indicates that it is unlikely that any significant or material costs or loss, other than legal costs in connection with the defence, are expected to be incurred, although U.S. litigation is by its nature uncertain and it is therefore not always possible to accurately predict any outcome in terms of withdrawals, dismissal or ultimate liability.

Adverse publicity in relation to the 9/11 claims could affect DIB's reputation, particularly outside the UAE. In addition, if such claims, either in aggregate or individually, were to be successful, and substantial damages and/or penalties were to be assessed against DIB, these could have a material adverse effect on DIB's business, results of operations, financial condition and prospects.

DIB's business may be influenced by a principal beneficial shareholder

DIB's principal beneficial shareholder is the Government of Dubai, holding 29.8 per cent. of DIB's share capital as at 31 December 2012. By virtue of this shareholding, the Government of Dubai has the ability to influence DIB's business significantly through its ability to control certain actions that require shareholder approval. If circumstances were to arise where the interests of the Government of Dubai or any future major shareholder conflicts with the interests of the Certificateholders, Certificateholders could be disadvantaged by any such conflict.

DIB's business is influenced by growth in its portfolio of Islamic financing and investing assets

DIB's Islamic financing and investing assets, net of impairment provisions, have grown from AED 49.9 billion (U.S.$13.6 billion) as at 31 December 2009 to AED 55.6 billion (U.S.$15.1 billion) as at 31 December 2012.

The increase in DIB's Islamic financing and investing assets portfolio size during this period has increased its credit exposure. In addition, DIB's strategy of continuing to grow its core banking activities organically within the UAE by offering a wider range of products (in particular in relation to its retail businesses) may also increase the credit risk exposure in DIB's Islamic financing and investing assets portfolio. Whilst DIB has adopted a more prudent and risk adverse strategy in respect of new financings since late 2008 (by reducing its exposure to large corporate wholesale financings and, in particular, by running-off its corporate real estate portfolio), any failure to manage growth and development successfully and to maintain the quality of its assets could have an adverse effect on DIB's business, results of operations, financial condition and prospects.

DIB's business is subject to concentration risk

Concentrations in DIB's financing and deposit portfolios subject it to risks of default by its larger customers, from exposure to particular sectors of the UAE economy that may underperform and from withdrawal of large deposits. DIB's financing and deposit portfolios show country, industry and customer concentrations.

DIB's Islamic financing and investing assets are concentrated, geographically, in the UAE, where certain industry sectors (including the real estate sector) and certain regions (including Dubai) have been more significantly affected than others by the global financial crisis that commenced in early 2008. See "*—Real estate exposure*" below for a description of the principal risks relating to the Dubai real estate sector. In addition, the composition of DIB's financing portfolio will change from time to time and, in some circumstances, the portfolio may contain a concentration of exposure to particular industries or sectors, Government entities, Government Related Entities or individuals.

DIB's consolidated portfolio of Islamic financing and investing assets, net of impairment provisions, constituted 58.3 per cent. of its consolidated total assets, or AED 55.6 billion (U.S.$15.1 billion), as at 31 December 2012. Of such total portfolio as at 31 December 2012, more than 96.3 per cent. of DIB's Islamic financing and investing assets were situated in the UAE.

DIB's customers' deposits constituted 78.8 per cent. of its total liabilities, or AED 66.8 billion (U.S.$18.2 billion), as at 31 December 2012, of which the majority were located in the UAE. As a result of the concentration of DIB's portfolio of Islamic financing and investment assets and customer deposit base in the UAE, any deterioration in general economic conditions in the UAE or any failure by DIB to manage effectively its risk concentrations could have an adverse effect on its business, results of operations, financial condition and prospects (see further "*– Political, economic and related considerations*").

Real estate exposure

Real estate exposure risk is the credit risk associated with providing financing to customers for the purpose of acquiring real estate, either for their own use or for investment, as well as where financing to the client is secured by real estate as collateral. Any downturn in the real estate market or default of DIB's main real estate related clients could have a material adverse effect on DIB's business, reputation, financial condition, results of operations and prospects. While DIB seeks to manage this risk through its credit risk policies and procedures, including the carrying out of due diligence and the establishment of concentration limits, there is no guarantee that this will be successful.

As at 31 December 2012, the Group's gross maximum exposure (that is to say, before taking into account collateral held or other credit enhancements) to the real estate and home financing sectors was 25.3 per cent. and 11.9 per cent., respectively. As at 31 December 2012, 29.8 per cent. and 21.6 per cent. of the Group's gross Islamic financing and investing assets comprised financings made to the real estate and consumer home finance sectors, respectively.

The Group's principal exposure to the consumer home finance sector is through its subsidiary, Tamweel PJSC ("**Tamweel**"), whose core business is the provision of *Shari'a* compliant home financing solutions within the UAE. Tamweel's Islamic financing and investing assets is concentrated in the UAE residential financing sector and, accordingly, Tamweel's Islamic financing and investing assets are concentrated both geographically and by industry sector. As at 31 December 2012, DIB owned 58.3 per cent. of Tamweel's issued share capital. In January 2013, DIB's Board of Directors approved a proposal to make an offer (the "**Tender Offer**") to the minority shareholders in Tamweel to acquire their shares in consideration of new shares (the "**New Shares**") in DIB. Under the Tender Offer, DIB is offering 10 New Shares for every 18 shares in Tamweel held by a Tamweel minority shareholder (see "*Description of Dubai Islamic Bank PJSC – Subsidiaries and Associates – Tamweel*").

Between late 2008 and the second quarter of 2009 a real estate correction took place in Dubai's real estate market such that according to the Colliers International House Price Index ("**The Colliers Index**"), the average price of residential property in Dubai decreased by 50.5 per cent. between the third quarter of 2008 and the second quarter of 2009. Since the second quarter of 2009, the average price of residential property in Dubai has remained relatively constant, such that according to The Colliers Index, the price of residential property in the fourth quarter of 2012 had only increased marginally from the prices recorded in the second quarter of 2009. Further, according to a report entitled "Dubai Real Estate Market Overview" published by Jones Lang LaSalle, covering the fourth quarter of 2012, the average prime rentals price for commercial office property in Dubai have remained stable since the fourth quarter of 2010.A further real estate correction or default in DIB's main real estate-related clients, may have a material adverse effect on DIB's business, financial condition, results of operations and prospects.

Technology risk

Banks including DIB rely on technology. External attacks on banks' information technology systems, and those of their clients, have become increasingly common in the GCC and worldwide. DIB continues to invest in resources to mitigate this risk including business continuity and recovery planning. Notwithstanding this, the risk of an existing system, new system or user acceptance test, failing, or successful cyber or similar attacks taking place, remains and should the policies put in place prove ineffective, this could have a material adverse effect on DIB's business, reputation, financial condition, results of operations and prospects.

Unavailability of conventional hedging instruments under Shari'a law

DIB's status as an Islamic bank means that its assets and liabilities are not fully comparable to those of a conventional bank. In particular, unlike conventional banks, DIB does not have a full range of hedging products available to it. The fact that the return payable on DIB's Islamic products is profit-linked reduces to some extent the risk of losses arising on unhedged liabilities and, in addition, there is a growing range of *Shari'a*-compliant derivative products which can be used for hedging purposes. However, the generally more limited range of hedging products available to Islamic institutions may mean that in the future DIB is unable to hedge effectively all of its risks and this could have an adverse effect on DIB's business, financial condition, results of operations and prospects.

DIB's ratings are subject to change

DIB is currently rated A by Fitch and Baa1 by Moody's. In December 2012, Moody's announced that it had placed DIB's rating on watchlist for a possible downgrade, principally as a result of concerns relating to DIB's capital adequacy and the levels of non-performing loans. Should Moody's subsequently decide to downgrade any of DIB's ratings, this would be likely to make it more expensive for DIB to raise financing in the future which could have an adverse affect on its business, financial condition, results of operations or prospects and could adversely affect the price at which the Certificates are traded in the secondary market.

No Guarantees

Investors should be aware that no guarantee is given by DIB, the shareholders of DIB or by any other person in relation to any amounts payable by the Issuer under the Certificates. In addition, investors should be aware that no guarantee is given by the shareholders of DIB or by any other person in relation to any amounts payable by DIB under the Transaction Documents.

Risks Relating to the Certificates

The Certificates are subordinated and unsecured obligations

Prospective investors should note that the payment obligations of DIB under the Mudaraba Agreement are subordinated to the claims of the Senior Creditors (as defined in the Conditions) and rank *pari passu* to the Pari Passu Obligations. Potential investors should note that payment of all amounts by DIB under the Mudaraba Agreement (and consequently, the corresponding payments by the Trustee under the Conditions) are conditional upon:

(i) DIB being Solvent at the time of payment of the Relevant Obligations; and

(ii) DIB being capable of making payment of the Relevant Obligations and any other payment required to be made to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter.

Further, the payment obligations of DIB under the Mudaraba Agreement are unsecured and no collateral is or will be given by DIB in relation thereto. Under the terms of the Mudaraba Agreement in relation to DIB's payment obligations thereunder, the Trustee will agree unconditionally and irrevocably to waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction. See Condition 4.2.4 (*Subordination*).

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 11.3 (*Winding-up, dissolution or liquidation*). If DIB were wound up, liquidated or dissolved, DIB's liquidator would apply the assets of DIB to satisfy all claims of the Senior Creditors. In such a situation, and if the condition as to solvency set out above is not satisfied, the Trustee shall not be able to make any claim against DIB and as a result Certificateholders shall not be entitled to receive any amounts under the Certificates.

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital by DIB as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of DIB can be issued that ranks senior to the Certificates, there is no restriction on DIB (in its capacity as Mudareb or otherwise) incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Certificates and the obligations of DIB under the Mudaraba Agreement ("**DIB Senior Obligations**"). The issue of or the creation of any such DIB Senior Obligations may reduce the amount recoverable by Certificateholders on a winding-up of DIB. Accordingly, in the winding-up of DIB and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the Certificateholders. See also "*– The Certificates are subordinated and unsecured obligations*".

Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative

The Trustee shall not pay Periodic Distribution Amounts if either a Non-Payment Event or a Non-Payment Election occurs (as defined in, and as more particularly provided in, Condition 8.1 (*Non-Payment Event*) and Condition 8.2 (*Non-Payment Election*), respectively).

Pursuant to Condition 8.2 (*Non-Payment Election*), in the event of a Non-Payment Election, DIB may instruct the Trustee not to make payment of a Periodic Distribution Amount to Certificateholders on the corresponding Periodic Distribution Date.

In each of the following events (each, a "**Non-Payment Event**"), the Trustee shall not pay Periodic Distribution Amounts to the Certificateholders:

(i) the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit payable by DIB (as Mudareb) under the Mudaraba Agreement, when aggregated with any distributions or amounts payable by DIB (whether as Mudareb or otherwise) on any other obligations ranking senior to or *pari passu* with the payment obligations under the Mudaraba Agreement and having the same dates in respect of payment of such profit amounts as the dates for payment of profit under the Certificates, exceeds, on the relevant date for payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, DIB's Distributable Profits;

(ii) DIB (whether as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any capital buffers imposed on DIB by the Financial Regulator) or payment of the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) to the Trustee would cause it to be in breach thereof; or

(iii) the Financial Regulator requires (a) DIB not to pay the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date; or

(iv) DIB is, on that Mudaraba Profit Distribution Date, Mudaraba End Date or Periodic Distribution Date (as the case may be), not Solvent or would no longer be Solvent if the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as the case may be) was paid.

In the event of a Non-Payment Event or a Non-Payment Election, certain restrictions on declaration of dividends and redemption of certain securities by DIB will be made in accordance with Condition 8.4 (*Dividend and Redemption Restrictions*). However, the Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Periodic Distribution Amount in such a circumstance shall not constitute a Dissolution Event. DIB shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

If such a situation occurs, the Certificateholders will not receive Periodic Distribution Amounts on their investment in the Certificates and neither the Trustee nor the Certificateholders shall have any claim in respect thereof.

Perpetual Securities

The Certificates are perpetual securities which have no scheduled repayment date. Certificateholders have no ability to require the Trustee to redeem their Certificates unless a Dissolution Event occurs. The Dissolution Events and Certificateholders' rights following a Dissolution Events are set out in Condition 11 (*Dissolution Events and Winding-up*). The Trustee has the option to redeem the Certificates in certain circumstances as more particularly described in Condition 10 (*Redemption and Variation*), although there is no assurance that it will do so.

This means that the Certificateholders have no ability to cash in their investment, except:

(i) if the Trustee exercises its rights to redeem the Certificates in accordance with Condition 10 (*Redemption and Variation*);

(ii) if so directed by an Extraordinary Resolution of the Certificateholders following a Dissolution Event; or

(iii) by selling their Certificates.

There can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates.

The Certificates will cease to accrue profit from the due date for redemption (if any)

Investors are advised that each Certificate will cease to accrue profit from the due date for redemption (following liquidation of the Mudaraba). Consequently, should payments owing to

Certificateholders on the due date for redemption (if any) be received by them after the due date for any reason, no additional profit payment, late payment amount or other equivalent amount will be payable in respect of such delay. See Condition 7.3 (*Cessation of Accrual*).

Basel III Reforms – Future UAE legislation on loss absorbency at the point of non-viability may have adverse effects for Certificateholders

The Basel Committee on Banking Supervision has approved new capital and liquidity standards for credit institutions in response to the recent global financial crisis (the "**Basel III Reforms**"). The Basel III Reforms provide that Tier 1 bank capital instruments (such as the Certificates) not containing any contractual terms providing for, at the option of the relevant authority, the writing off of the principal amount of such instruments or the conversion of such instruments into ordinary shares upon the occurrence of a Non-Viability Event (as defined below), will, subject to implementation of the Basel III reforms and to applicable transitional provisions, cease to be eligible to count in full as regulatory capital with effect from 1 January 2013 unless, among other things, the jurisdiction of the relevant bank has in place laws that (i) require such instruments to be written down upon the occurrence of a Non-Viability Event, or (ii) otherwise require such instruments fully to absorb losses before tax payers are exposed to loss.

As at the date of this Prospectus, the UAE has not implemented the Basel III Reforms. Although it is expected that the Central Bank will issue specific guidelines regarding Basel III in due course, it is not possible to predict the timing or substance of the legislative and rulemaking process. In addition, as at the date of this Prospectus, the UAE has not implemented a law that would require loss absorbency for Tier 1 bank capital instruments on the occurrence of a Non-Viability Event. If the implementation by the UAE of the Basel III Reforms or any other relevant laws, rules or guidelines in the future gives rise to a Capital Event in respect of the Certificates, the Certificates may be redeemed or varied pursuant to Condition 10.1(d) (*Redemption or Variation for Capital Event*) without the consent of the Certificateholders at any time after the applicable notice period to the Certificateholders. See "*– Variation upon the occurrence of a Capital Event or a Tax Event*" and "*– The Certificates may be subject to early redemption; redemptions conditional*". To the extent that the UAE introduces a statutory resolution regime to implement loss absorbency upon the occurrence of a Non-Viability Event, either through the writing off of the principal amount of Tier 1 bank capital instruments or the conversion of such instruments into ordinary shares, it is unclear how such a regime will apply to banks in the UAE or how it may be interpreted within the UAE and whether and to what extent it will affect the Certificates. See "*The United Arab Emirates Banking Sector and Regulations – Capital Adequacy – UAE*".

As used herein, "**Non-Viability Event**" means the earlier of (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority. This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "Non-Viability Event" (or any term equivalent thereto) pursuant to any law or regulation in the UAE implementing the Basel III Reforms.

Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Trustee shall (but only upon the instructions of DIB (acting in its sole discretion)), subject as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be) and without the need for any consent of the Certificateholders, vary the terms of the Certificates such that they become or remain (as appropriate) Qualifying Tier 1 Instruments (as defined in Condition 1 (*Interpretation*)).

A Capital Event will arise if DIB is notified by the Financial Regulator that the Certificates will cease or have ceased to qualify for inclusion in full in the consolidated Tier 1 Capital of DIB. A Tax Event will arise if DIB or the Trustee (as the case may be) would, as a result of a Tax Law Change (as defined in the Conditions), in making any payments under the Mudaraba Agreement or on the Certificates (as the case may be) on the next due date for such payment, be required to pay

Additional Amounts (and such requirement cannot be avoided by DIB or the Trustee (as the case may be) taking reasonable measures available to it). Each of Tax Event and Capital Event are more particularly described in Condition 10.1 (*Redemption and variation*).

The tax and stamp duty consequences of holding the Certificates following variation as contemplated in Condition 10.1 (*Redemption and variation*) could be different for certain Certificateholders from the tax and stamp duty consequences for them of holding the Certificates prior to such variation and none of the Issuer, the Trustee and DIB shall be responsible to any Certificateholder for any such consequences in connection therewith. Further, while the Conditions stipulate that the variation (as contemplated by the Conditions) must not be materially less favourable to the Certificateholders, no assurance can be given as to whether any of these changes will negatively affect any particular Certificateholder.

The Certificates are limited recourse obligations

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the Trust Assets. Recourse to the Issuer or the Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of such Trust Assets are the sole source of payments on the Certificates. Upon notice to the Trustee of a Dissolution Request in accordance with the terms of Condition 11.1 (*Dissolution Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders), will be (subject to Condition 11.3 (*Winding-up, dissolution or liquidation*)) against DIB to perform its obligations under the Transaction Documents. Certificateholders will have no recourse to any assets of the Issuer or the Trustee (other than the Trust Assets), the Delegate or (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is party) DIB in respect of any shortfall in the expected amounts due on the Certificates. DIB is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against DIB to recover such payments due to the Trustee pursuant to the Transaction Documents. In the absence of default by DIB, investors have no direct recourse to DIB and there is no assurance that the net proceeds of any enforcement action in accordance with Condition 11 (*Dissolution Events and Winding-up*) will be sufficient to make all payments due in respect of the Certificates.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Clause 17 (*Application of Moneys*) of the Declaration of Trust, the obligations of the Issuer, the Trustee and/or the Delegate in respect of the Certificates shall be satisfied and neither the Trustee nor the Delegate nor any Certificateholder may take any further steps against the Trustee or DIB to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets as contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against DIB shall be (in accordance with Condition 11.3 (*Winding-up, dissolution or liquidation*)), to enforce the obligation of DIB to perform its obligations under the Transaction Documents.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. The Certificates generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "– *Perpetual Securities*"), are subordinated (see "– *The Certificates are subordinated and unsecured obligations*") and payments of Periodic Distribution Amounts may be restricted in certain circumstances (see "– *Payments of Periodic Distribution Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

Application has been made for the Certificates to be admitted to the official list of the Irish Stock Exchange and for such Certificates to be admitted to trading on the Irish Stock Exchange. However, there can be no assurance that any such listing will occur or will enhance the liquidity of the Certificates.

Illiquidity may have an adverse effect on the market value of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realise a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates.

The Certificates may be subject to early redemption; redemptions conditional

Upon the occurrence of a Tax Event or a Capital Event, the Trustee shall (but only upon the instructions of DIB (acting in its sole discretion)), at any time, having given not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Certificates together with any accrued but unpaid Periodic Distribution Amounts (as more particularly described in Condition 10.1(c) (*Redemption or Variation due to Taxation*) in relation to a Tax Event, and Condition 10.1(d) (*Redemption or Variation for Capital Event*) in relation to a Capital Event).

Any redemption of the Certificates is subject to the requirements in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), including obtaining the prior written consent of the Financial Regulator. There can be no guarantee that the consent of the Financial Regulator will be received on time or at all.

There is no assurance that the Certificateholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Certificates. During any period when DIB may instruct the Trustee to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the Tax Redemption Amount or the Capital Event Amount (as applicable) payable. Potential investors should consider re-investment risk in light of other investments available at that time.

Investment in the Mudaraba Assets

Pursuant to the Mudaraba Agreement between DIB (as Mudareb) and the Trustee (as Rab-al-Maal), which constitutes a Mudaraba, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) and shall as a result form the initial capital of the Mudaraba (the "**Mudaraba Capital**"). The Mudaraba Capital will be invested, on an unrestricted co-mingling Mudaraba basis, by DIB in its general business activities carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool assets (the "**Mudaraba Assets**") with a view to earning profit therefrom, which will in turn be applied towards payments due to Certificateholders in respect of the Certificates.

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Mudaraba Assets. The investment activities of the Mudaraba will be carried out by DIB, and the Certificateholders shall have no ability to influence such activities. DIB shall be granted the express entitlement to co-mingle its own assets in the General Mudaraba Pool assets and, as a result, it may not be possible to identify the Mudaraba Assets separately from the assets of DIB.

If any of the risks relating to the business of DIB mentioned above (see "*– Risks relating to DIB*") materialise or otherwise impact DIB's business, the value of and profit earned from the investment in such Mudaraba Assets may decrease which may, in turn, have a material adverse effect on the DIB's ability to fulfil its payment obligations under the Mudaraba Agreement and consequently, the Trustee's ability to make payments in respect of the Certificates.

Risks relating to enforcement

UAE Bankruptcy Law

In the event of DIB's insolvency, UAE bankruptcy laws may adversely affect DIB's ability to perform its obligations under the Mudaraba Agreement and, consequently, the Trustee's ability to make payments to Certificateholders. There is little precedent to predict how a claim on behalf of Certificateholders and/or the Delegate against DIB would be resolved, and therefore there can be no assurance that Certificateholders will receive payment of their claims in full or at all in these circumstances.

Change of law

The structure of the issue of the Certificates is based on English law, the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE and administrative practices in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE or administrative practices in any such jurisdiction after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Trustee to make payments under the Certificates or of DIB to comply with its obligations under the Transaction Documents.

Enforcement risk

Ultimately the payments under the Certificates are dependent upon DIB making payments to the Trustee in the manner contemplated under the Transaction Documents. If DIB fails to do so, it may be necessary to bring an action against DIB to enforce its obligations (subject to the provisions of Condition 11 (*Winding-up, dissolution or liquidation*)) and/or to claim damages, as appropriate, which could be both time consuming and costly.

DIB has irrevocably agreed that certain of the Transaction Documents will be governed by English law and, where this is the case, that any dispute arising from such Transaction Documents will, unless the option to litigate is exercised, be referred to arbitration in London under the LCIA Arbitration Rules. The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. Any arbitration award rendered in London should therefore be enforceable in Dubai in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Dubai courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE. There have been limited instances where the UAE courts, most notably the Fujairah Court of First Instance and the Dubai Court of Cassation, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention. It should be noted that only the Dubai Court of Cassation decision was a final decision. The uncertainty regarding the interpretation and application of the New York Convention provisions by the courts is further reinforced by the lack of a system of binding judicial precedent in the UAE and the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force within other Emirates. There is therefore no guarantee that the Dubai courts will take the same approach in similar proceedings in the future.

Under the Conditions and certain Transaction Documents, any dispute may also be referred to the courts in England or the Courts in the Dubai International Finance Centre (the "**DIFC**").

Where an English judgment has been obtained, there is no assurance that DIB has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced. DIB is a UAE company and is incorporated in and has its operations and the majority of its assets located in the UAE. Under current Dubai law, the courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the relevant Transaction Document or the

Certificates. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with the laws of Dubai and the UAE, and public policy. This may mean that the Dubai courts may seek to interpret English law governed documents as if governed by UAE law and there can therefore be no certainty that in those circumstances the Dubai courts would give effect to such documents in the same manner as the parties may intend.

Dubai Law No. 16 of 2011 on Amending Some Provisions of Law No. 12 of 2004 Concerning the Dubai International Financial Centre Courts ("**Law No. 16 of 2011**") came into force in Dubai on 31 October 2011 and extended the jurisdiction of the DIFC courts to include all civil and commercial disputes where the parties to the relevant dispute have expressly agreed to submit to the jurisdiction of the DIFC courts, even where such parties are unconnected to the DIFC. Under Article 7 of Law No. 16 of 2011, any final and unappealable judgment, order or award made by the DIFC courts must, upon application to the Dubai Court of Execution, be enforced without that court being able to reconsider the merits of the case. As a result, and as any dispute under the Conditions and certain Transaction Documents may also be referred to the DIFC courts as aforesaid, the DIFC courts should recognise the choice of English law as the governing law of the Certificates or such Transaction Documents, and any final and unappealable judgment of the DIFC courts in connection therewith should be enforced by the Dubai courts without reconsidering the merits of the case. Investors should note however that, as at the date of this Prospectus, Law No. 16 of 2011 remains relatively new and largely untested and there is therefore no certainty as to how the DIFC courts intend to exercise their jurisdiction under the law should any party dispute the right of the DIFC courts to hear a particular dispute where any party is unconnected to the DIFC, nor is there any certainty that the Dubai Court of Execution will enforce the judgment of the DIFC court without reconsidering the merits of the case.

As the UAE judicial system is based on a civil code, judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty.

Claims for specific enforcement

If DIB fails to perform its obligations under any Transaction Document, the potential remedies available to the Trustee and the Delegate include obtaining an order for specific enforcement of DIB's obligations or a claim for damages.

There is no assurance that a court will provide an order for specific enforcement which is a discretionary matter. The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors including an obligation on the Trustee and the Delegate to mitigate any loss arising as a result of the breach. No assurance is provided on the level of damages which a court may award if DIB fails to perform its obligations set out in the Transaction Documents.

Additional risk factors

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Certificates are legal investments for it; (ii) Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

Certificateholders must rely on Euroclear and Clearstream, Luxembourg procedures

The Certificates will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Certificates in definitive form. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the ownership interests in the Global Certificate.

While the Certificates are represented by the Global Certificate, investors will be able to trade their ownership interests only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Certificates are represented by the Global Certificate, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of an ownership interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, ownership interests in the Global Certificate.

Holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

No assurance can be given as to *Shari'a* rules

The Executive Committee of the Fatwa & *Sharia* Supervisory Board of DIB in liaison with Dar al Sharia Legal & Financial Consultancy LLC, the HSBC Amanah Central Shariah Committee and the *Shari'a* Supervisory Committee of Standard Chartered Bank have confirmed that the Transaction Documents are, in their view, *Shari'a* compliant. However, there can be no assurance that the Transaction Documents or the issue and trading of the Certificates will be deemed to be *Shari'a* compliant by any other *Shari'a* board or *Shari'a* scholars. None of the Trustee, DIB, the Delegate or the Managers makes any representation as to the *Shari'a* compliance of the Certificates and/or any trading thereof and potential investors are reminded that, as with any *Shari'a* views, differences in opinion are possible.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would be, if in dispute, the subject of arbitration in London under the LCIA Rules. DIB has also agreed under certain of the Transaction Documents to submit to the jurisdiction of the courts of England or the DIFC, at the option of the Trustee or the Delegate, as the case may be. In such circumstances, the arbitrator or judge, as the case may be, will first apply the relevant law of the relevant Transaction Document rather than *Shari'a* principles in determining the obligation of the parties.

Certificates with a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

As the Certificates have a denomination consisting of the minimum Authorised Denomination (as defined in the Conditions and further described in Condition 2.1 (*Form and Denomination*)) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Authorised Denomination that are not such integral multiples of such minimum Authorised Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Authorised Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Authorised Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Authorised Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least an Authorised Denomination in order to be eligible to receive a Definitive Certificate.

If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Authorised Denomination may be illiquid and difficult to trade.

Consents are required in relation to the variation of Transaction Documents and other matters

The Conditions contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally and for obtaining written resolutions on matters relating to the Certificates from Certificateholders without calling a meeting. A written resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Declaration of Trust and whose Certificates are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Issuer will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by Trustee, the Delegate or DIB or given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Delegate and/or DIB by accountholders in the clearing systems with entitlements to the Global Certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. These provisions permit defined majorities to bind all Certificateholders including Certificateholders who did not attend and vote at the relevant meeting and Certificateholders who voted in a manner contrary to the majority.

The Conditions also provide that the Delegate may, without the consent of Certificateholders, agree to the substitution of another company as obligor under the Certificates in place of the Issuer, in the circumstances described in Condition 11.2 (*Trustee Events*).

The Conditions also provide that the Delegate may, without the consent or approval of the Certificateholders, agree to the variation of the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 10.1(c) (*Redemption or Variation due to Taxation*) and Condition 10.1(d) (*Redemption or Variation for Capital Event*).

The Declaration of Trust also contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Trust if, in the opinion of the Delegate, such modification: (a) is of a formal, minor or technical nature; or (b) is made to correct a manifest error; or (c) is not materially prejudicial to the interests of the Certificateholders and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust). Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Neither DIB nor the Trustee has any control over the factors that generally affect these risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and volatility between such currencies or with other currencies may be expected in the future. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the principal payable on the Certificates (to the extent that any Dissolution Distribution Amount becomes payable as provided in the Conditions); and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payments including of any Periodic Distribution Amount on a Certificate. As a result, investors may receive less amounts under the Certificates than expected, or no such amounts. Even if there are no actual exchange controls, it is possible that U.S. dollars may not be available at the date of redemption of the Certificates.

Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

DIB's waiver of immunity may not be effective under UAE law

DIB has waived its rights in relation to sovereign immunity under the Transaction Documents. However, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Transaction Documents are valid and binding under the laws of the UAE and applicable in Dubai.

Risk factors relating to taxation

Payments made on or with respect to the Certificates may be subject to U.S. withholding tax

Pursuant to the foreign account tax compliance provisions of the U.S. Hiring Incentives to Restore Employment Act of 2010 ("**FATCA**"), the Issuer and other non-U.S. financial institutions through which payments on the Certificates are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Certificates issued or materially modified on or after the later of (a) 1 January 2014 and (b) the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed in the Federal Register and (ii) any Certificates which are treated as equity for U.S. federal tax purposes, whenever issued. Under existing guidance, this withholding tax may be triggered on payments on the Certificates if (i) the Issuer is a foreign financial institution ("**FFI**") (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information on its account holders (making the Issuer a “**Participating FFI**”), (ii) the Issuer is required to withhold on “foreign passthru payments”, and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI through which payment on such Certificates is made is not a Participating FFI or otherwise exempt from FATCA withholding.

The application of FATCA to payments of profit, Mudaraba Capital or other amounts paid with respect to the Certificates is not clear. The Issuer may be required to report certain information on its U.S. account holders to the government of the Cayman Islands in order (i) to obtain an exemption from FATCA withholding on payments it receives and/or (ii) to comply with any applicable Cayman Islands law. It is not yet certain how the United States and the Cayman Islands will address withholding on “foreign passthru payments” (which may include payments on the Certificates) or if such withholding will be required at all.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from profit, principal or other payments on the Certificates as a result of FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the Conditions, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may receive less profit or Mudaraba Capital than expected.

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE ISSUER, THE CERTIFICATES AND CERTIFICATEHOLDERS IS UNCERTAIN AT THIS TIME. EACH CERTIFICATEHOLDER SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO LEARN HOW THIS LEGISLATION MIGHT AFFECT EACH CERTIFICATEHOLDER IN ITS PARTICULAR CIRCUMSTANCE.

Taxation risks on payments

Payments made by DIB to the Trustee under the Transaction Documents or by the Trustee in respect of the Certificates could become subject to taxation. The Mudaraba Agreement requires DIB to pay additional amounts in the event that any withholding or deduction is required by UAE law to be made in respect of payments made by it to the Trustee under that document. Furthermore, Condition 12 (*Taxation*) provides that the Trustee is required to pay additional amounts in respect of any such withholdings or deductions imposed by the Cayman Islands in certain circumstances. If the Trustee fails to gross-up for any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, DIB has, pursuant to the Declaration of Trust, unconditionally and irrevocably undertaken (irrespective of the payment of any fee), as a continuing obligation, to pay to the Trustee (for the benefit of the Certificateholders) an amount equal to the liabilities of the Trustee in respect of any and all additional amounts required to be paid in respect of the Certificates pursuant to Condition 12 (*Taxation*) in respect of any withholding or deduction in respect of any tax as set out in that Condition.

The circumstances described above may entitle DIB to be able to instruct the Trustee to redeem or vary the Certificates pursuant to Condition 10.1(c) (*Redemption or Variation due to Taxation*). See “*– The Certificates may be subject to early redemption; redemptions conditional*” and “*– Variation upon the occurrence of a Capital Event or a Tax Event*” for a description of the consequences thereof.

EU Savings Directive

Under EC Council Directive 2003/48/EC (“**Directive**”) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of certain payments paid by a person within its jurisdiction to an individual resident in that other Member State or to certain types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

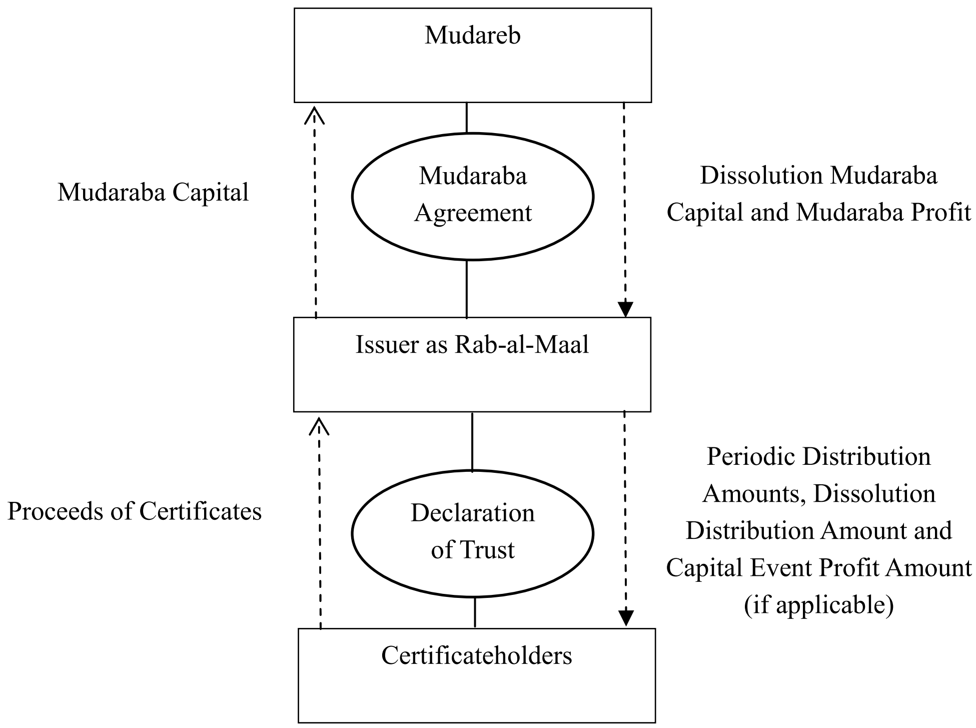
The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Trustee nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Certificates as a result of the imposition of such withholding tax. The Trustee is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows relating to the Certificates. This does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus. Potential investors are referred to the Conditions and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below. Potential investors should read this entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Structure Diagram



Principal Cash Flows

Payments by the Certificateholders and the Issuer

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Issuer. Pursuant to the Declaration of Trust, the Issuer, in its capacity as the Trustee, will declare a trust, in favour of the Certificateholders, over the proceeds of the issuance of the Certificates, any and all of its rights, title benefits and interests, present and future under the Transaction Documents and any and all amounts standing to the credit of the Transaction Account from time to time. The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) and shall as a result form the initial capital of the Mudaraba (the "**Mudaraba Capital**") pursuant to the Mudaraba Agreement. The Mudaraba Capital will be invested, on an unrestricted co-mingling Mudaraba basis, by DIB in its general business activities carried out through the General Mudaraba Pool and, following investment of the Mudaraba Capital, the Mudaraba Capital shall constitute *pro rata* undivided assets in the General Mudaraba Pool assets.

Periodic payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election (in the case of Mudaraba Profit only) has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Issuer and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Issuer (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Issuer shall apply its share of the profit (if any) generated by the Mudaraba on each Periodic Distribution Date to pay the Periodic Distribution Amount due to the Certificateholders on such date.

Payments of Mudaraba Profit (as defined in the Mudaraba Agreement) by DIB (as Mudareb) are at the sole discretion of DIB (as Mudareb) and may only be made in circumstances where a Non-Payment Event has not occurred nor, as the case may be, would occur if such payment was otherwise made. The Mudareb shall not have any obligation to make any subsequent payment in respect of such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise).

Under the terms of the Mudaraba Agreement, the Mudareb shall be expressly entitled to co-mingle its assets with the General Mudaraba Pool assets.

Dissolution payments, redemption and variation by the Issuer and the Mudareb

The Mudaraba is a perpetual arrangement with no fixed end date. Accordingly, the Certificates are perpetual securities in respect of which there is no fixed redemption date.

Subject to certain conditions set out in Clause 7 of the Mudaraba Agreement, DIB (as Mudareb) may at its option liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(i) on the First Call Date or any Periodic Distribution Date after the First Call Date, by giving not less than 30 nor more than 60 days' prior notice to the Trustee; or

(ii) on any date on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 nor more than 60 days' prior notice to the Trustee:

  (a) upon the occurrence of a Tax Event; or

  (b) upon the occurrence of a Capital Event.

The Trustee (but only upon the instructions of DIB (acting in its sole discretion)) shall, upon receipt of notice in accordance with paragraph (i) above redeem all of, but not only some of, the Certificates, and upon receipt of notice in accordance with paragraph (ii) above redeem all of, but not only some of, the Certificates or vary the terms thereof, in each case by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders, all as more particularly described in the Conditions, and in each case following final constructive liquidation of the Mudaraba, as described above.

DIB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by DIB to be varied upon the occurrence of a Tax Event or a Capital Event, to make such variations as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

OVERVIEW OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview does not contain all of the information that an investor should consider before investing in the Certificates. Each investor should read the entire Prospectus carefully, especially the risks of investing in the Certificates discussed under "Risk Factors".

Words and expressions defined in the Conditions shall have the same meanings in this overview.

Certificates	U.S.$1,000,000,000 Tier 1 Capital Certificates.
Trustee	DIB Tier 1 Sukuk Ltd., an exempted company incorporated with limited liability on 5 February 2013 under the laws of the Cayman Islands and formed and registered in the Cayman Islands with registered number 275278 with its registered office at MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY-1102, Cayman Islands.
Ownership of the Trustee	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 ordinary shares of U.S.$1.00 each, 250 of which are fully-paid and issued. The Trustee's entire issued share capital is held on trust for charitable purposes by MaplesFS Limited as share trustee under the terms of a declaration of trust.
Administration of the Trustee	The affairs of the Trustee are managed by MaplesFS Limited (the "**Trustee Administrator**"), who has agreed to perform certain management functions and provide certain clerical, administrative and other services pursuant to a corporate services agreement dated 11 March 2013 between the Trustee Administrator and the Trustee (the "**Corporate Services Agreement**"). The Trustee Administrator's registered office is P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands.
Mudareb	Dubai Islamic Bank PJSC.
Rab-al-Maal	DIB Tier 1 Sukuk Ltd.
Risk Factors	Certain factors may affect the Trustee's ability to fulfil its obligations under the Certificates and DIB's ability to fulfil its obligations under the Transaction Documents. In addition, certain factors are material for the purpose of assessing the market risks associated with the Certificates. These are set out under "*Risk Factors*".
Joint Lead Managers	Dubai Islamic Bank PJSC, Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C. and Standard Chartered Bank.
Co-Lead Managers	Abu Dhabi Islamic Bank PJSC, Barwa Bank Q.S.C. and Shariah Islamic Bank PJSC.
Delegate	Deutsche Trust Company Limited.

	Pursuant to the Declaration of Trust, the Trustee shall delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Mudareb and/or DIB following a Dissolution Event.
Principal Paying Agent and Calculation Agent	Deutsche Bank AG, London Branch.
Registrar and Transfer Agent	Deutsche Bank Luxembourg S.A.
Listing Agent	Arthur Cox Listing Services Limited.
Summary of the transaction structure and Transaction Documents	An overview of the structure of the transaction and the principal cashflows is set out under "*Structure Diagram and Cashflows*" and a description of the principal terms of certain of the Transaction Documents is set out under "*Summary of the Principal Transaction Documents*".
Issue Date	20 March 2013
Issue Price	100 per cent.
Periodic Distribution Dates	20 March and 20 September every year, commencing on 20 September 2013.
Periodic Distributions	Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on each Periodic Distribution Date up to and including the First Call Date at a rate of 6.250 per cent. per annum. If the Certificates are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Periodic Distribution Amounts shall be payable on each Periodic Distribution Date after the First Call Date (subject as aforesaid) at a fixed rate, to be reset on the First Call Date and every six years thereafter, equal to the Relevant Six Year Reset Rate plus a margin of 4.954 per cent. per annum. If DIB makes a Non-Payment Election or a Non-Payment Event occurs, the Trustee shall not pay the corresponding Periodic Distribution Amounts and neither DIB nor the Trustee shall have any obligation to make any subsequent payment in respect of any unpaid Periodic Distribution Amount as more particularly described in Condition 8 (*Periodic Distribution Restrictions*).
Form of Certificates	The Certificates will be issued in registered form as described in "*Global Certificate*". The Certificates will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common

depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Definitive Certificates evidencing holding of Certificates will be issued in exchange for interests in the Global Certificate only in limited circumstances.

Clearance and Settlement

Certificateholders must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.

Denomination of the Certificates

The Certificates will be issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Status of the Certificates

Each Certificate will represent an undivided ownership interest in the Trust Assets, will be a limited recourse obligation of the Trustee and will rank *pari passu* without any preference or priority with all other Certificates; see Condition 4.1 (*Status*).

The payment obligations of DIB under the Mudaraba Agreement will (a) constitute Tier 1 Capital of DIB, (b) constitute direct, unsecured and subordinated obligations of DIB, (c) rank subordinate and junior to all Senior Obligations (as defined in the Conditions) but not further or otherwise, (d) rank *pari passu* with all other Pari Passu Obligations (as defined in the Conditions) and (e) rank in priority only to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

Trust Assets

The Trust Assets consist of:

(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets (as defined herein);

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by DIB (acting in any capacity) pursuant to any of the Transaction Documents); and

(c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing, which will be held by the Trustee upon trust for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and the Conditions.

Redemption of Certificates and variation of their terms

The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date. The Certificates may be redeemed in whole but not in part, or the terms thereof may be varied by the Trustee (but only upon the instructions of DIB (acting in its sole discretion)) only in accordance with the provisions of Condition 10 (*Redemption and Variation*).

Pursuant to Condition 10.1(b) (*Trustee's Call Option*), the Trustee shall (but only upon the instructions of DIB (acting in its sole discretion)), on the First Call Date or on any Periodic Distribution Date thereafter, redeem all, but not some only, of the Certificates at the Trustee Call Amount.

In addition (on any date on or after the Issue Date, whether or not a Periodic Distribution Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Certificates may be redeemed or the terms of the Certificates may be varied, in each case in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) and 10.1(d) (*Redemption or Variation for Capital Event*).

Any redemption of the Certificates is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

Dissolution Events

Subject to Condition 11 (*Dissolution Events and Winding-up*), upon the occurrence of a DIB Event and upon the receipt of a Dissolution Request or being directed by an Extraordinary Resolution of the Certificateholders in accordance with Condition 11.1 (*Dissolution Events*), the Trustee and/or the Delegate shall, subject to Condition 11.3 (*Winding-up, dissolution or liquidation*), take the actions referred to in Condition 11.3 (*Winding-up, dissolution or liquidation*).

Withholding Tax

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 12 (*Taxation*), all payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any Taxes (as defined in Condition 12 (*Taxation*)), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay Additional Amounts (as defined in the Conditions) so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto.

The Mudaraba Agreement and the investment plan therein provides that payments thereunder by DIB (in its capacity as the Mudareb) shall be made net of withholding or deduction of Taxes where required by law and, in such case, provide for the payment by DIB of Additional Amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Trustee Covenants	The Trustee has agreed to certain restrictive covenants as set out in Condition 6 (*Covenants*).
Ratings	DIB is currently rated A by Fitch and Baa1 by Moody's. The Certificates will not be rated by any rating organisation upon their issue.
Certificateholder Meetings	A summary of the provisions for convening meetings of the Certificateholders to consider matters relating to their interests as such is set out in Condition 17 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*).
Tax Considerations	See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Listing and Admission to Trading	Application has been made to the Irish Stock Exchange for the Certificates to be admitted to the Official List and to trading on the Regulated Market.
Transaction Documents	The Declaration of Trust, the Agency Agreement and the Mudaraba Agreement (and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto) are referred to herein as the "**Transaction Documents**".
Governing Law	The Declaration of Trust, the Certificates, the Conditions, the Agency Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, English law. The Mudaraba Agreement will be governed by, and construed in accordance with, the laws of the Emirate of Dubai and to the extent applicable, the federal laws of the United Arab Emirates.
Waiver of Immunity	To the extent that DIB may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, DIB will agree in the Transaction Documents not to claim and will irrevocably and unconditionally waive such immunity in relation to any legal proceedings. Further, DIB will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any legal proceedings See Condition 20.6 (*Waiver of Immunity*).
Limited Recourse	Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as otherwise provided in Condition 4.4 (*Limited Recourse*), the Certificates do not represent an interest in any of the Issuer, the Trustee, the Delegate, DIB, any of the Agents or any of their respective affiliates.

Certificateholders will have no recourse to any assets of the Issuer, the Trustee (other than the Trust Assets) or the Delegate, DIB or the Agents (to the extent that each of the Delegate, DIB and the Agents (as applicable) fulfils all of its obligations under the Transaction Documents to which it is a party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets when the Trust Assets have been exhausted, following which all obligations of the Issuer and the Trustee shall be extinguished. See Condition 4.4 (*Limited Recourse*) for further details.

Selling Restrictions

There are restrictions on the distribution of this Prospectus and the offer or sale of Certificates in the United States, the United Kingdom, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Cayman Islands, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, the State of Qatar, Hong Kong, Singapore, Malaysia and Switzerland. See "*Subscription and Sale*".

Use of Proceeds

The proceeds of the issue of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to DIB (as Mudareb) as Mudaraba Capital pursuant to the terms of the Mudaraba Agreement as described in "*Use of Proceeds*".

TERMS AND CONDITIONS OF THE TIER 1 CAPITAL CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form (if issued) and will, save as provided in "Global Certificate", apply to the Global Certificate:

Each of the U.S.$1,000,000,000 Tier 1 Capital Certificates, and any further certificates issued pursuant to Condition 16 (*Further Issues*), (the "**Certificates**") is issued by DIB Tier 1 Sukuk Ltd. (in its capacity as issuer (the "**Issuer**") and in its capacity as trustee (the "**Trustee**", which expression shall where the context allows include the Delegate (as defined below) acting pursuant to the powers delegated to it by the Trustee pursuant to the Declaration of Trust (as defined below)) and represents an undivided ownership interest in the Trust Assets (as defined in Condition 5 (*The Trust*)) held on trust (the "**Trust**") for the benefit of the Certificateholders (as defined below) of such Certificates pursuant to a declaration of trust (the "**Declaration of Trust**") dated 20 March 2013 (the "**Issue Date**") made between the Trustee, the Issuer, Dubai Islamic Bank PJSC ("**DIB**") and Deutsche Trustee Company Limited as the delegate of the Trustee (the "**Delegate**").

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the "**Agency Agreement**") made between the Issuer, the Trustee, DIB, the Delegate, Deutsche Bank AG, London Branch as principal paying agent (in such capacity, the "**Principal Paying Agent**" and together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agent**"), Deutsche Bank Luxembourg S.A. as registrar (in such capacity, the "**Registrar**") and as transfer agent (in such capacity, the "**Transfer Agent**" and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**") and Deutsche Bank AG, London Branch as calculation agent (the "**Calculation Agent**", which expression includes the Calculation Agent for the time being). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these terms and conditions (the "**Conditions**") as the Agents. References to the "**Agents**" or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as defined in Condition 1 (*Interpretation*)). Copies of the Transaction Documents are available for inspection during normal business hours at the specified offices of the Principal Paying Agent. The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee: (i) to contribute the sums paid by it in respect of its Certificate(s) to the Mudareb (as defined in Condition 5 (*The Trust*)) in accordance with the Mudaraba Agreement (as defined in Condition 5 (The Trust)); (ii) to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf (which authorisation and direction shall also apply to its successors in title and any Substituted Trustee (as defined below)); and (iii) to enter into each Transaction Document, subject to the provisions of the Declaration of Trust and these Conditions.

1 Interpretation

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to it in Condition 12 (*Taxation*);

"**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to DIB, including transitional rules and waivers granted in respect of the foregoing;

"**Assets**" means the non-consolidated gross assets of DIB as shown (if required by any relevant party) in the latest audited balance sheet of DIB, but adjusted for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of DIB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Auditors**" means, at any time, the statutory independent auditors to DIB at the relevant time or such other auditor as may be appointed for the purpose of the Transaction Documents or, failing such appointment, as may be nominated by the Delegate (subject to the Delegate being indemnified and/or secured and/or pre-funded to its satisfaction);

"**Authorised Denomination**" has the meaning given to that term in Condition 2.1 (*Form and Denomination*);

"**Basel III Documents**" means the Basel Committee on Banking Supervision document "A global regulatory framework for more resilient banks and banking systems" released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" on 13 January 2011;

"**Business Day**" means a day, other than a Friday, Saturday, Sunday or public holiday, on which registered banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in Dubai, New York City and London;

"**Capital Event**" is deemed to have occurred if DIB is notified in writing by the Financial Regulator to the effect that the notional amount (or the amount that qualifies as regulatory capital, if some amount of the Certificates are held by DIB or whose purchase is funded by DIB) of the Certificates would cease to qualify for inclusion in full in the consolidated Tier 1 Capital of DIB (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital);

"**Capital Event Amount**" in relation to a Certificate means its outstanding face amount together with any Outstanding Payments;

"**Capital Event Profit Amount**" means, on the date of final constructive liquidation of the Mudaraba pursuant to Clause 7.3.3 of the Mudaraba Agreement, an amount equal to one per cent. of the Mudaraba Capital on such date;

"**Capital Regulations**" means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the United Arab Emirates, including those of the Financial Regulator;

"**Central Bank**" means the Central Bank of the United Arab Emirates or any successor thereto;

"**Certificateholder**" means a person in whose name a Certificate is registered in the Register (or in the case of joint Certificateholders, the first named thereof) and the expressions "**holder**" and "**holder of Certificates**" and related expressions shall (where appropriate) be construed accordingly;

"**Common Equity Tier 1**" means capital qualifying as, and approved by the Financial Regulator as, common equity tier 1 in accordance with the Capital Regulations;

"**Day-count Fraction**" means the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Periodic Distribution Period in which the relevant period falls (including the first such day but excluding the last);

"**Determination Date**" means, in respect of a Reset Period, the third Business Day prior to the commencement of such Reset Period;

"**DIB Event**" means:

(i) **Non-payment**: DIB (acting in its capacity as Mudareb) fails to pay an amount in the nature of principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of seven days (save in each case where such failure occurs solely as a result of DIB making a Non-Payment Election or the occurrence of a Non-Payment Event); or

(ii) **Insolvency**: a final determination is made by a court or other official body that DIB is insolvent or bankrupt or unable to pay its debts; or

(iii) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of DIB or DIB shall apply or petition for a winding-up or administration order in respect of itself or cease, or through an official action of its board of directors threaten to cease, to carry on all or substantially all of its business or operations, in each case except (A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders or (B) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority;

(iv) **Analogous Event**: any event occurs which under the laws of the United Arab Emirates has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above.

References in subparagraph (ii) (*Insolvency*) above to "**debts**" shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a* and which is treated as debt for the purposes of applicable law, in each case whether entered into directly or indirectly by DIB;

"**Directors**" means the executive and non-executive directors of DIB who make up its board of directors;

"**Dispute**" has the meaning given to it in Condition 20.2 (*Arbitration*);

"**Dissolution Distribution Amount**" means the Trustee Call Amount, the Capital Event Amount and the Tax Redemption Amount or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions and, for the avoidance of doubt, such amount shall be equal to the aggregate of the Mudaraba Capital, any applicable and generated Rab-al-Maal Mudaraba Profit;

"**Dissolution Event**" means a DIB Event and/or a Trustee Event;

"**Dissolution Notice**" has the meaning given to it in Condition 11.1 (*Dissolution Events*);

"**Dissolution Request**" has the meaning given to it in Condition 11.1 (*Dissolution Events*);

"**Distributable Profits**" means the amount of DIB's non-consolidated retained earnings and reserves (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent non-consolidated financial statements of DIB;

"**Extraordinary Resolution**" has the meaning given to it in the Declaration of Trust;

"**Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Financial Regulator**" means the Central Bank or any successor entity having primary bank supervisory authority with respect to DIB in the United Arab Emirates;

"**First Call Date**" means 20 March 2019;

"**First Mudaraba Profit Distribution Date**" means 20 September 2013;

"**General Mudaraba Pool**" has the meaning given to it in the Mudaraba Agreement;

"**Initial Period**" means the period from (and including) the Issue Date to (but excluding) the First Call Date;

"**Initial Periodic Distribution Rate**" has the meaning given to it in Condition 7.4(a) (*Periodic Distribution Rate*);

"**Junior Obligations**" means all claims of the holders of Ordinary Shares and all payment obligations of DIB in respect of its other Common Equity Tier 1 capital;

"**LCIA**" means the London Court of International Arbitration;

"**Liabilities**" means the non-consolidated gross liabilities of DIB as shown (if required by any relevant party) in the latest audited balance sheet of DIB, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors, the Auditors or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of DIB) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Margin**" means 4.954 per cent. per annum;

"**Mudaraba**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Agreement**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba Capital**" has the meaning given to it in Condition 5 (*The Trust*);

"**Mudaraba End Date**" means the date on which the Mudaraba ends, being the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions;

"**Mudaraba Profit**" has the meaning given to that term in the Mudaraba Agreement;

"**Mudaraba Profit Distribution Date**" means 20 March and 20 September in each year, starting on the First Mudaraba Profit Distribution Date;

"**Mudaraba Reserve**" has the meaning given to it in the Mudaraba Agreement;

"**Mudareb**" has the meaning given to it in Condition 5 (*The Trust*);

"**Non-Payment Election**" has the meaning given to it in Condition 8.2 (*Non-Payment Election*);

"**Non-Payment Event**" has the meaning given to it in Condition 8.1 (*Non-Payment Event*);

"**Ordinary Shares**" means ordinary shares of DIB, having on the Issue Date a par value of AED 1.00 each;

"**Other Common Equity Tier 1 Instruments**" means securities issued by DIB that constitute Common Equity Tier 1 of DIB other than Ordinary Shares;

"**Outstanding Payments**" means, in relation to any amounts payable on redemption of the Certificates, an amount representing accrued and unpaid Periodic Distribution Amounts for the Periodic Distribution Period during which redemption occurs to the date of redemption plus Additional Amounts thereon, if any;

"**Pari Passu Obligations**" means all subordinated payment obligations of DIB which rank, or are expressed to rank, *pari passu* with the Relevant Obligations;

"**Payment Business Day**" has the meaning given to it in Condition 9.3 (*Payment only on a Payment Business Day*);

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7.2 (*Periodic Distribution Amounts*);

"**Periodic Distribution Date**" means 20 March and 20 September in each year, starting on (and including) 20 September 2013;

"**Periodic Distribution Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Periodic Distribution Date and each successive period beginning on (and including) a Periodic Distribution Date and ending on (but excluding) the next succeeding Periodic Distribution Date;

"**Proceedings**" has the meaning given to it in Condition 20.4 (*Submission to jurisdiction*);

"**Profit Rate**" means, in respect of the Initial Period, the Initial Periodic Distribution Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 7.4(a) (*Periodic Distribution Rate*);

"**Qualifying Tier 1 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or other equity securities, issued directly or indirectly by DIB that:

(i) will be eligible to constitute Tier 1 Capital on issue;

(ii) have terms and conditions not materially less favourable to a holder of the Certificates than the Certificates (as reasonably determined by DIB (provided that in making this determination DIB is not required to take into account the tax treatment of the new instrument in the hands of all or any Certificateholders, or any transfer or similar taxes that may apply on the acquisition of the new instrument) provided that a certification to such effect of two Directors shall have been delivered to the Trustee prior to the variation of the terms of the instruments);

(iii) continue to be obligations of DIB, directly or indirectly or by a guarantee or equivalent support undertaking by DIB;

(iv) rank on a winding up at least *pari passu* with the Relevant Obligations;

(v) have at least the same face value amount and profit distribution dates as the Certificates and at least equal profit or distribution rate or rate of return as the Certificates;

(vi) (where the instruments are varied prior to the First Call Date) have the same first call date as the Certificates;

(vii) have the same optional redemption dates as the Certificates,

and which may include such technical changes as necessary to reflect 'Tier 1 Capital' requirements under the Capital Regulations then applicable to DIB (including, without limitation, such technical changes as may be required in the adoption and implementation of the Basel III Documents);

"**Rab-al-Maal Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Rab-al-Maal Final Mudaraba Profit**" has the meaning given to it in the Mudaraba Agreement;

"**Record Date**" means in the case of the payment of a Periodic Distribution Amount, the date falling on the fifteenth day before the relevant periodic Distribution Date and, in the case of the payment of a Dissolution Distribution Amount, the date falling two Payment Business Days before the date for payment of the relevant Dissolution Distribution Amount, as the case may be;

"**Register**" has the meaning given to it in Condition 2.1 (*Form and Denomination*);

"**registered account**" has the meaning given to it in Condition 9.1 (*Payments in respect of the Certificates*);

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Delegate on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders in accordance with Condition 15 (*Notices*);

"**Relevant Jurisdiction**" means the Cayman Islands (in the case of any payment made by the Trustee) and the United Arab Emirates and/or the Emirate of Dubai (in the case of any payment made by DIB) or, in each case, any political sub-division or authority thereof or therein having the power to tax;

"**Relevant Obligations**" has the meaning given to it Condition 4.2.1 (*Subordination*);

"**Relevant Six Year Reset Rate**" means the mid-swap rate for U.S. dollar swap transactions with a maturity of six years displayed on Reuters 3000 page "ISDAFIX1" (or such other page as may replace that page on Bloomberg, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Determination Date. If the correct mid swap rate does not appear on that page, the six year U.S. dollar mid swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Determination Date to participants in the U.S. dollar swap market for a six-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards);

"**Reserved Matter**" has the meaning given to it in the Declaration of Trust;

"**Reset Date**" means the First Call Date and every sixth anniversary thereafter;

"**Reset Period**" means the period from (and including) the first Reset Date to (but excluding) the earlier of (a) the Mudaraba End Date and (b) the following Reset Date, and (if applicable) each successive period thereafter from (and including) such Reset Date to (but excluding) the earlier of (x) the Mudaraba End Date and (y) the next succeeding Reset Date;

"**Rules**" has the meaning given to it in Condition 20.2 (*Arbitration*);

"**Senior Creditors**" means creditors of DIB (including depositors (in respect of their due claims) and, for this purpose, holders of any instrument issued by, or other obligation of, DIB which ranks senior to the payment obligations of DIB under the Relevant Obligations) other than creditors in respect of obligations the claims in relation to which rank or are expressed to rank *pari passu* with, or junior to, the claims of the Trustee in respect of the Relevant Obligations;

"**Senior Obligations**" means all unsubordinated payment obligations of DIB and all subordinated payment obligations (if any) of DIB to which the Relevant Obligations are expressed to rank junior;

"**Solvent**" means that: (i) DIB is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities;

"**Substituted Territory**" has the meaning given to it in Condition 11.2 (*Trustee Events*);

"**Substituted Trustee**" has the meaning given to it in Condition 11.2 (*Trustee Events*);

"**Taxes**" has the meaning given to it in Condition 12 (Taxation);

"**Tax Event**" means DIB or the Trustee (as the case may be) would, as a result of a Tax Law Change, in making any payments under the Mudaraba Agreement (in the case of DIB (in its capacity as Mudareb)) on the next due date for a payment of Mudaraba Profit or the Certificates (in the case of the Trustee) on the next due date for payment of a Periodic Distribution Amount (as the case may be) (whether or not a Non-Payment Event has occurred or a Non-Payment Election has been made), be required to pay Additional Amounts (and such requirement cannot be avoided by DIB or the Trustee (as the case may be) taking reasonable measures available to it);

"**Tax Law Change**" means any change in, or amendment to, the laws affecting taxation (or regulations or rulings promulgated thereunder) of any Relevant Jurisdiction, or any change in the official application of such laws, regulations or rulings;

"**Tax Redemption Amount**" in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

"**Tier 1 Capital**" means capital qualifying as, and approved by the Financial Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**Transaction Account**" has the meaning given to it in Condition 5 (*The Trust*);

"**Transaction Documents**" means each of the Declaration of Trust, the Agency Agreement, the Mudaraba Agreement and any other agreements, deeds, undertakings or other documents designated as such by the parties thereto;

"**Trust Assets**" has the meaning given to it in Condition 5 (*The Trust*);

"**Trustee Call Amount**" in relation to a Certificate, means its outstanding face amount together with any Outstanding Payments;

"**Trustee Event**" means any of the following events:

(i) **Non-Payment:** default is made in the payment of the Dissolution Distribution Amount on the date fixed for payment thereof or default is made in the payment of any Periodic Distribution Amount on the due date for payment thereof and, in the case of any Periodic Distribution Amount only, such default continues for a period of seven days; or

(ii) **Insolvency**: the Trustee is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or (in the opinion of the Delegate) a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Trustee; or

(iii) **Winding-up**: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders; or

(iv) **Analogous Events**: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraph (ii) or (iii) above;

For the purpose of subparagraph (i) (*Non-payment*) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7.4 (*Periodic Distributions*)) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts including, without limitation, as a result of the matters described in Condition 4.5(d) (save in each case where such insufficient funds arise solely as a result of DIB making a Non-Payment Election or the occurrence of a Non-Payment Event); and

"**Trustee's Territory**" has the meaning given to it in Condition 11.2 (*Trustee Events*).

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

2 Form, Denomination and Title

2.1 Form and Denomination

The Certificates are issued in registered form in face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**"). A Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Certificateholders (the "**Register**").

*Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, societe anonyme ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate. Except in certain limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "Global Certificate".*

2.2 Title

The Trustee will cause the Registrar to maintain the Register outside the United Kingdom in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

3 Transfers of Certificates

3.1 Transfers

Subject to Conditions 3.4 (*Closed Periods*) and 3.5 (*Regulations*) and the provisions of the Agency Agreement, a Certificate may be transferred in an Authorised Denomination only by depositing the Certificate by which it is represented, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the individuals who have executed the forms of transfer.

Transfers of interests in the Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.

3.2 Delivery of New Certificates

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

3.3 Formalities Free of Charge

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent but upon payment (or the giving of such indemnity as the Trustee or any Transfer Agent may reasonably require) by the transferee in respect of any stamp duty, tax, or other governmental charges which may be imposed in relation to such transfer.

3.4 Closed Periods

No Certificateholder may require the transfer of a Certificate to be registered during the period of 15 days ending on a Periodic Distribution Date or any other date on which any payment of the face amount or payment of any premium or profit in respect of a Certificate falls due.

3.5 Regulations

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning the transfer of Certificates scheduled to the Declaration of Trust. The Regulations may be changed by the Trustee from time to time with the prior written approval of the Delegate and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 3.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a

Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3.2 (*Delivery of New Certificates*).

4 Status, Subordination and Limited Recourse

4.1 Status

Each Certificate will represent an undivided ownership interest in the relevant Trust Assets subject to the terms of the Declaration of Trust, the Mudaraba Agreement and these Conditions and will be a limited recourse obligation of the Trustee. Each Certificate will rank *pari passu* without preference or priority, with all other Certificates. The rights and claims of the Certificateholders are subordinated as described in Condition 4.2 (*Subordination*),

4.2 Subordination

4.2.1 The payment obligations of DIB under the Mudaraba Agreement (the "**Relevant Obligations**") will (a) constitute Tier 1 Capital of DIB, (b) constitute direct, unsecured and subordinated obligations of DIB, (c) rank subordinate and junior to all Senior Obligations but not further or otherwise, (d) rank *pari passu* with all other Pari Passu Obligations and (e) rank in priority only to all Junior Obligations.

4.2.2 The rights of the Trustee against DIB under the Relevant Obligations are subordinated in right of payment to the claims of all Senior Creditors of DIB and accordingly, payments in respect of the Relevant Obligations by DIB are conditional upon the following:

(i) DIB being Solvent at the time of payment of the Relevant Obligations; and

(ii) DIB being capable of making payment of the Relevant Obligations and any other payment required to be made on the relevant date to a creditor in respect of all Senior Obligations and all Pari Passu Obligations and still be Solvent immediately thereafter.

4.2.3 The Trustee may only exercise its enforcement rights in relation to any Relevant Obligation or in relation to any of its other rights under the Mudaraba Agreement or any other Transaction Document in the manner provided in Condition 11.3 (*Winding-up, dissolution or liquidation*).

4.2.4 The Trustee will, in each relevant Transaction Document, unconditionally and irrevocably waive any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Relevant Obligations. No collateral is or will be given by DIB for the Relevant Obligations and any collateral that may have been or may in the future be given in connection with other obligations of DIB shall not secure the Relevant Obligations.

4.3 Other Issues

So long as any of the Certificates remain outstanding, DIB (whether in its capacity as Mudareb or otherwise) will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or a consolidated basis) issued Tier 1 Capital of DIB if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Relevant Obligations. This prohibition will not apply if at the same time or prior thereto: (a) these Conditions and (to the extent applicable) the Transaction Documents are amended to ensure that the Trustee (on behalf of the Certificateholders) obtains and/or (b) the Relevant Obligations and DIB's obligations under the Relevant Obligations have, the benefit of, such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Relevant Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Limited Recourse

Proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next paragraph, the Certificates do not represent an interest in any of the Issuer, the Trustee, the Delegate, DIB, any of the Agents or any of their respective affiliates. Accordingly, Certificateholders will have no recourse to any assets of the Issuer, the Trustee (other than the Trust Assets) (including, in particular, other assets comprised in other trusts, if any) or the Delegate, DIB or the Agents (to the extent that each of the Delegate, DIB and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party), or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets when the Trust Assets have been exhausted, following which all obligations of the Issuer and the Trustee shall be extinguished.

However, DIB is obliged to make certain payments under the Transaction Documents directly to the Trustee and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 11.3 (*Winding-up, dissolution or liquidation*), have direct recourse against DIB to recover payments due to the Trustee from DIB pursuant to such Transaction Documents.

The net proceeds of the realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 11.3(b) (*Enforcement*), no holder of Certificates will have any claim against the Issuer, the Trustee (to the extent the Trust Assets have been exhausted) or the Delegate, DIB or the Agents (to the extent that each of the Delegate, DIB and the Agents fulfils all of its respective obligations under the Transaction Documents to which it is a party) or any of their affiliates or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of DIB (to the extent that it fulfils all of its respective obligations under the Transaction Documents), the Issuer or the Trustee or their affiliates as a consequence of such shortfall or otherwise.

4.5 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(a) no payment of any amount whatsoever shall be made by the Issuer or the Trustee or any of their respective agents on its behalf except to the extent funds are available therefor from the Trust Assets and further agrees that no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against any of the Issuer, the Trustee or the Trust to the extent the Trust Assets have been exhausted following which all obligations of the Issuer and the Trustee shall be extinguished;

(b) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, it will not institute against, or join with any other person in instituting against the Issuer, the Trustee or the Trust any bankruptcy, reorganisation, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;

(c) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Issuer or the Trustee arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate service provider of the Issuer or the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer, director or corporate service provider in their capacity as such for any breaches by the Issuer or the Trustee of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law;

(d) (i) the proceeds of the Trust Assets are the sole source of payments on the Certificates; (ii) the Issuer's and the Trustee's ability to comply with its obligations under the Certificates will therefore depend on receipt by them of payments expected from the Trust Assets, and will in particular depend on payments by DIB under the Mudaraba Agreement; (iii) the Mudaraba Agreement provides that there is no guarantee of any return from the Mudaraba Assets and DIB's obligations to pay amounts thereunder are subject to the more detailed provisions set out therein; and (iv) references in these Conditions to "**Periodic Distribution Amount**", "**profit**" and "**Profit Rate**" should be considered accordingly; and

(e) the Trustee and Mudareb have agreed in the Mudaraba Agreement that the Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

5 The Trust

DIB Tier 1 Sukuk Ltd. (in its capacity as Trustee and as the "***Rab-al-Maal***") will enter into a mudaraba agreement (the "**Mudaraba Agreement**") to be dated the Issue Date with DIB (in such capacity, the "**Mudareb**"). Pursuant to the Mudaraba Agreement, the Rab-al-Maal will contribute the proceeds of the issue of the Certificates to the Mudareb, which proceeds will form the initial capital of the Mudaraba (as defined below) (the "**Mudaraba Capital**"). The Mudareb will invest the Mudaraba Capital in its general business activities carried out through the General Mudaraba Pool and following investment of the Mudaraba Capital in the General Mudaraba Pool, shall constitute pro rata undivided assets in the General Mudaraba Pool assets (the "**Mudaraba Assets**") in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and constitute a mudaraba (the "**Mudaraba**").

The Trustee has opened a transaction account (the "**Transaction Account**") in the name of the Trustee with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb and DIB will pay all amounts due to the Trustee under the Mudaraba Agreement respectively. If the Trustee is substituted in accordance with Condition 11.2 (*Trustee Event*), the Substituted Trustee will open a new transaction account in its name with the Principal Paying Agent into which the Mudareb and DIB will pay all amounts due to the Trustee under the Mudaraba Agreement from the date of substitution onwards, and references in these Conditions to the "Transaction Account" will be construed accordingly.

Pursuant to the Declaration of Trust, the Trustee will declare that it will hold:

(a) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets;

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by DIB (acting in any capacity) pursuant to any of the Transaction Documents); and

(c) all monies standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the "**Trust Assets**") upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each such holder in accordance with the Declaration of Trust and these Conditions.

6 Covenants

The Trustee has covenanted in the Declaration of Trust that, *inter alia*, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of *Shari'a* or otherwise), or give any guarantee in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(b) secure any of its present or future indebtedness for borrowed money (whether structured in accordance with the principles of *Shari'a* or otherwise) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, transfer, assign, participate, exchange or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise, or permit such to occur or suffer such to exist) any part of its interest in any of the Trust Assets except pursuant to the Transaction Documents (other than those arising by operation of law);

(d) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(e) amend or agree to any amendment to any Transaction Document, or amend its constitutional documents, in each case in a manner which is materially prejudicial to the rights of Certificateholders, without the prior approval of the Certificateholders by way of Extraordinary Resolution, save that it shall be permitted to make such variations to the Transaction Documents and the Conditions as are required pursuant to Condition 10.1 (*Redemption and variation*);

(f) act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(g) have any subsidiaries or employees;

(h) redeem or purchase any of its shares or pay any dividend or make any other distribution to its shareholders;

(i) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up (except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Delegate or by an Extraordinary Resolution of the Certificateholders) or any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents or any permitted amendment or supplement thereto or as expressly permitted or required thereunder or engage in any business or activity other than:

   (i) as provided for or permitted in the Transaction Documents;

   (ii) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

   (iii) such other matters which are incidental thereto.

7 Periodic Distributions

7.1 Distribution of Mudaraba Profit

The Trustee has agreed in the Mudaraba Agreement that DIB shall be entitled (in its capacity as Mudareb or otherwise) to utilise the Mudaraba Assets (and the proceeds thereof) in respect of the Certificates to make payments in respect of the claims of Senior Creditors or to cover losses of the Mudaraba and that such entitlement shall apply at any time before an order has been made, or an effective resolution has been passed, for the winding-up, dissolution or liquidation (or other analogous event) of DIB (in its capacity as Mudareb or otherwise).

7.2 Periodic Distribution Amounts

Subject to Condition 9 (*Payments*) and Condition 7.3 (*Cessation of Accrual*), the Issuer shall distribute to Certificateholders, *pro rata* to their respective holdings, out of amounts transferred into the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount. The "**Periodic Distribution Amount**" payable on each Periodic Distribution Date (i) falling prior to and including the first Reset Date shall be U.S.$31.25 per U.S.$1,000 in face amount of the Certificates and (ii) falling after the first Reset Date shall be the relevant amount calculated pursuant to Condition 7.4 (*Periodic Distributions*), in each case without prejudice to the provisions of Condition 4.5(d).

7.3 Cessation of Accrual

Each Certificate will cease to be eligible to earn Periodic Distribution Amounts from the due date for redemption, following liquidation of the Mudaraba in accordance with the Conditions and the Mudaraba Agreement.

7.4 Periodic Distributions

Subject to Condition 8 (*Periodic Distribution Restrictions*), the Certificates bear profit at the applicable Profit Rate from (and including) the Issue Date in accordance with the provisions of this Condition 7 (*Periodic Distributions*). Periodic Distribution Amounts will not be cumulative and any Periodic Distribution Amount which is not paid will not accumulate or compound and Certificateholders will have no right to receive such Periodic Distribution Amount at any time, even if Periodic Distribution Amounts are paid in the future.

Subject to Condition 8 (*Periodic Distribution Restrictions*), Periodic Distribution Amounts shall be payable on the Certificates semi-annually in arrear on each Periodic Distribution Date (other than the first Periodic Distribution Date), in each case as provided in this Condition 7 (*Periodic Distributions*).

If a Periodic Distribution Amount is required to be calculated in respect of a period of less than a full Periodic Distribution Period and other than the first Periodic Distribution Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of: (a) the applicable Profit Rate; (b) the face amount of the relevant Certificate; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

(a) **Periodic Distribution Rate**

For the Initial Period, the Certificates bear profit at the Profit Rate of 6.250 per cent. per annum (the "**Initial Periodic Distribution Rate**").

The Profit Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Six Year Reset Rate on the relevant Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Profit Rate which shall apply to the Reset Period commencing on the relevant Reset Date, cause the applicable Profit Rate and the corresponding Periodic Distribution Amount to be notified to each of the Paying Agents and the Irish Stock Exchange and to be notified to Certificateholders in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the second Business Day thereafter.

(b) **Calculation Agent**

With effect from the First Call Date, and so long as any Certificates remain outstanding thereafter, the Trustee will maintain a Calculation Agent. The name of the initial Calculation Agent and its initial specified office is set out at the end of these Conditions.

The Trustee may, with the prior written approval of the Delegate, from time to time replace the Calculation Agent with another leading investment, merchant or commercial bank or financial institution in London. If the Calculation Agent is unable or unwilling to continue to act as the Calculation Agent or (without prejudice to Condition 7.4(c) (*Determinations of Calculation Agent or Trustee Binding*)) fails duly to determine the Profit Rate in respect of any Reset Period as provided in Condition 7.4(a) (*Periodic Distribution Rate*), the Trustee shall forthwith appoint another leading investment, merchant or commercial bank or financial institution in London approved in writing by the Delegate to act as such in its place. The Calculation Agent may not resign its duties or be removed without a successor having been appointed as aforesaid.

(c) **Determinations of Calculation Agent or Trustee Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Periodic Distributions*), whether by the Calculation Agent or the Trustee (or its agent), shall (in the absence of manifest error) be binding on the Trustee, DIB, the Calculation Agent, the Paying Agents, the Delegate and all Certificateholders and (in the absence of manifest error) no liability to the Certificateholders or the Trustee shall attach to the Calculation Agent, the Trustee or the Delegate in connection with the exercise or non-exercise by them of any of their powers, duties and discretions.

7.5 Capital Event Profit Amount

If the Certificates are redeemed following a Capital Event, the Periodic Distribution Amount to be paid as part of the Outstanding Payments shall include a further profit amount in an amount equal to the Capital Event Profit Amount.

8 Periodic Distribution Restrictions

8.1 Non-Payment Event

Notwithstanding Condition 7.4 (*Periodic Distributions*), if any of the following events occurs (each, a "**Non-Payment Event**"), DIB (as Mudareb) shall not pay Mudaraba Profit or Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), and as a result thereof the Trustee shall not pay Periodic Distribution Amounts on the corresponding Periodic Distribution Date:

(i) the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit payable by DIB (as Mudareb) under the Mudaraba Agreement, when aggregated with any distributions or amounts payable by DIB (whether as Mudareb or otherwise) on any other obligations ranking senior to or *pari passu* with the payment obligations under the Mudaraba Agreement and having the same dates in respect of payment of such profit amounts as the dates for payment of Rab-al-Maal Mudaraba Profit, exceeds, on the relevant date for payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, DIB's Distributable Profits;

(ii) DIB (whether as Mudareb or otherwise) is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be), in breach of the Applicable Regulatory Capital Requirements (including any capital buffers imposed on DIB by the Financial Regulator) or payment of the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) to the Trustee would cause it to be in breach thereof; or

(iii) the Financial Regulator requires (a) DIB not to pay the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) to the Trustee on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or (b) the Trustee not to pay the relevant Periodic Distribution Amount on that Periodic Distribution Date; or

(iv) DIB is, on that Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) or in the case of Condition 8.1(iii)(b) on the relevant Periodic Distribution Date, not Solvent or would no longer be Solvent if the relevant Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit (as applicable) was paid.

8.2 Non-Payment Election

Notwithstanding Condition 7.4 (*Periodic Distributions*), DIB may in its sole discretion elect that Rab-al-Maal Mudaraba Profit will not be paid to the Trustee (in its capacity as Rab-al-Maal) on any Mudaraba Profit Distribution Date, and DIB shall, in each case, instruct the Trustee not to make payment of a Periodic Distribution Amount to Certificateholders on such Periodic Distribution Date (each a "**Non-Payment Election**"). The foregoing shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date.

8.3 Effect of Non-Payment Event or Non-Payment Election

If DIB makes a Non-Payment Election or a Non-Payment Event occurs, then DIB shall (i) in the case of a Non-Payment Election, 14 calendar days prior to such event, and (ii) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than one Business Day prior to the relevant Mudaraba Profit

Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 15 (*Notices*) in each case providing details of the Non-Payment Election or Non-Payment Event, as the case may be. Certificateholders shall have no claim in respect of any Periodic Distribution Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and any non-payment of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit (in the case of a Non-Payment Event only) or a Periodic Distribution Amount in such circumstance shall not constitute a Dissolution Event. DIB shall not have any obligation to make any subsequent payment in respect of any such unpaid profit (whether from its own cash resources, from the Mudaraba Reserve or otherwise) and the Trustee shall not have any obligations to make any subsequent payment in respect of any such Periodic Distribution Amounts.

8.4 Dividend and Redemption Restrictions

If any amount of Rab-al-Maal Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of a Non-Payment Election or a Non-Payment Event pursuant to Condition 8.1 (*Non-payment Event*) or 8.2 (*Non-payment Election*) (as the case may be), then, from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), DIB will not, so long as any of the Certificates are outstanding:

(i) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, ordinary shares issued by DIB (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(ii) pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities, ranking, as to the right of payment of dividend, distributions or similar payments, *pari passu* with the Relevant Obligations (excluding securities the terms of which do not at the relevant time enable DIB to defer or otherwise not to make such payment), only to the extent such restrictions on payment or distribution is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or

(iii) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by DIB; or

(iv) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by DIB ranking, as to the right of repayment of capital, *pari passu* with the Relevant Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until two consecutive payments of Rab-al-Maal Mudaraba Profit (or the consecutive payment of Rab-al-Maal Mudaraba Profit and the payment of Rab-al-Maal Final Mudaraba Profit) following the Dividend Stopper Date have been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee in accordance with the Mudaraba Agreement).

9 Payments

9.1 Payments in respect of the Certificates

Subject to Condition 9.2 (*Payments Subject to Applicable Laws*), payment of the Dissolution Distribution Amount and any Periodic Distribution Amount will be made by or on behalf of the Issuer in U.S. dollars by wire transfer in same day funds to the registered account (as defined below) of the Certificateholder. Payments of the Dissolution Distribution Amount will only be made against presentation and surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and each Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of this Condition 9 (*Payments*), a Certificateholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of such Certificateholder with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant record date.

9.2 Payments subject to Applicable Laws

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*).

9.3 Payment only on a Payment Business Day

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day (as defined below), for value the first following day which is a Payment Business Day) will be initiated by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Payment Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent for value as soon as practicable thereafter.

Certificateholders will not be entitled to any additional payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

If the amount of the Dissolution Distribution Amount or, subject to Conditions 8.1 (*Non-Payment Event*) and 8.2 (*Non-Payment Election*), any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount in fact paid.

In this Condition 9.3 (*Payment only on a Payment Business Day*), "**Payment Business Day**" means a day on which commercial banks and foreign exchange markets in London and New York City are open for general business and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

9.4 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that: (a) it will at all times maintain a Principal Paying Agent and a Registrar (which may be the same entity); (b) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, it will at all times maintain a Paying Agent, Registrar and a Transfer Agent having its specified office in such place (if any) as may be required by the rules of such listing authority, stock exchange and/or quotation system and (c) there will at all times be a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such Directive. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Trustee in accordance with Condition 15 (*Notices*).

10 Redemption and Variation

10.1 Redemption and variation

(a) **No Fixed Redemption Date and Conditions for Redemption and Variation**

The Certificates are perpetual securities in respect of which there is no fixed redemption date and the Trustee shall (subject to the provisions of Condition 4.2.2 (*Subordination*) and Condition 11.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 13 (*Prescription*)) only have the right to redeem the Certificates or vary the terms thereof in accordance with the following provisions of this Condition 10 (*Redemption and Variation*).

The redemption of the Certificates or variation of the Conditions, in each case pursuant to this Condition 10 (*Redemption and Variation*), is subject to the following conditions:

(i) the prior consent of the Financial Regulator;

(ii) the requirement that both at the time when the relevant notice of redemption or variation is given and immediately following such redemption or variation (as applicable), DIB is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements;

(iii) the requirements of Condition 4.2 (*Subordination*); and

(iv) (in the case of Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*) only) the requirement that the circumstance that entitles the Trustee to exercise its right of redemption or variation is a change of law or regulation (including in the case of Condition 10.1(d) (*Redemption or Variation for Capital Event*), Applicable Regulatory Capital Requirements) in the Emirate of Dubai or the United Arab Emirates or a change in the interpretation of such law or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after the date of the Mudaraba Agreement,

(in the case of (i) and (ii) above only, except to the extent that the Financial Regulator no longer so requires).

(b) **Trustee's Call Option**

Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), the Trustee shall (upon the instructions of DIB (acting in its sole discretion)), by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, redeem all but not some only, of the Certificates at the Trustee Call Amount.

Redemption of the Certificates pursuant to this Condition 10.1(b) (*Trustee's Call Option*) may only occur on the First Call Date or any Periodic Distribution Date thereafter.

(c) **Redemption or Variation due to Taxation**

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Tax Event, the Trustee shall (upon the instructions of DIB (acting in its sole discretion)), by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, (a) redeem all, but not some only, of the Certificates at the Tax Redemption Amount; or (b) vary the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate.

(ii) Redemption of the Certificates, or variation of the Conditions, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) At the same time as the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(c) (*Redemption or Variation due to Taxation*), DIB shall give to the Trustee and the Delegate a certificate signed by two Directors (upon which the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the varied Certificates are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice, the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(d) **Redemption or Variation for Capital Event**

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Capital Event, the Trustee shall (upon the instructions of DIB (acting in its sole discretion)), by giving not less than 30 nor more than 60 days' prior notice to the Certificateholders in accordance with Condition 15 (*Notices*) and to the Delegate in accordance with the Declaration of Trust, which notice shall be irrevocable, (a) redeem all, but not some only, of the Certificates at the Capital Event Amount; or (b) solely for the purpose of ensuring compliance with Applicable Regulatory Capital Requirements vary the terms of the Certificates so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments without any requirement for consent or approval of the Certificateholders, and in the case of (b) only provided that such modifications or any document giving effect to such modifications do not impose, in the Delegate's sole opinion, more onerous obligations or duties upon it or expose it to liabilities or reduce its protections, and that such modifications or any document giving effect to such modifications are approved by the Trustee and the Delegate.

(ii) Redemption of the Certificates, or variation of the Conditions, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*) may occur on any date on or after the Issue Date (whether or not a Periodic Distribution Date).

(iii) At the same time as the delivery of any notice of redemption or variation, as the case may be, pursuant to this Condition 10.1(d) (*Redemption or Variation for Capital Event*), DIB shall give to the Trustee and the Delegate a certificate signed by two Directors (upon which the Delegate may rely without liability to any person) stating that (A) the conditions set out in Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Capital Event has occurred; and (C), in the case of a variation only, the varied Certificates are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (i) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice the Trustee shall redeem or vary the terms of the Certificates, as the case may be.

(e) **Taxes upon Variation**

In the event of a variation in accordance with Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Event*), none of the Trustee, the Delegate and DIB will be obliged to pay and will not pay any liability of any Certificateholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Certificates provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) they become or, as appropriate, remain, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Certificateholder.

10.2 Purchase

Subject to DIB (A) obtaining the prior written consent of the Financial Regulator (if required), (B) being in compliance with the Applicable Regulatory Capital Requirements, and (C) being Solvent at the time of purchase, DIB or any of its other subsidiaries, may at any time purchase the Certificates in the open market at such price(s) and upon such other conditions as may be agreed upon between DIB and the relevant Certificateholder(s). Upon any such purchase, DIB may (in its sole discretion) deliver such Certificates to the Trustee for cancellation and upon such cancellation, the Mudaraba Capital shall be reduced by the face amount of the Certificates so cancelled.

10.3 Cancellation

All Certificates that are redeemed, and all Certificates that are purchased pursuant to Condition 10.2 (*Purchase*) and which DIB delivers for cancellation in accordance with Condition 10.2, will forthwith be cancelled and accordingly may not be held, reissued or resold.

11 Dissolution Events and Winding-up

The Declaration of Trust contains provisions entitling the Delegate to claim from the Trustee and DIB, inter alia, the fees, expenses and liabilities incurred by it in carrying out its duties under the Declaration of Trust. The restrictions on commencing proceedings described below will not apply to any such claim.

11.1 Dissolution Events

Upon the occurrence of a DIB Event, the Delegate (provided it shall have been given notice thereof by the Trustee or DIB) shall give notice of the occurrence of such event to the Certificateholders in accordance with Condition 15 (*Notices*) with a request to such Certificateholders to instruct the Delegate to give notice to the Trustee that the Certificates are, and shall immediately become, due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments (a "**Dissolution Request**"). If so requested in writing by the Certificateholders of at least one fifth of the then aggregate face amount of the Certificates outstanding, or if so directed by an Extraordinary Resolution of Certificateholders, the Delegate shall (but in each case subject to Condition 11.3(c) (*Entitlement of Trustee or Delegate*)), give notice (a "**Dissolution Notice**") to the Trustee of the Dissolution Request whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable and, upon receipt of such notice, the Trustee and/or the Delegate shall subject to Condition 11.3 (*Winding-up, dissolution or liquidation*) take the actions referred to in Condition 11.3 (*Winding-up, dissolution or liquidation*).

11.2 Trustee Events

(i) DIB has undertaken in the Declaration of Trust that, as soon as practicable following the occurrence of a Trustee Event, it will procure, subject to such amendment of the Declaration of Trust and such other conditions as the Delegate may require and subject to the consent of the Financial Regulator, the substitution of any newly formed special purpose company in form substantially the same as that of the Trustee, in place of the Trustee (the "**Substituted Trustee**"), or of any previous substituted company, as trustee and issuer under the Declaration of Trust and the Certificates provided that:

(A) a deed is executed or undertaking given by the Substituted Trustee to the Delegate, in form and manner satisfactory to the Delegate, agreeing to be bound by the Declaration of Trust, the Certificates and the Transaction Documents (with consequential amendments as the Delegate may deem appropriate) as if the Substituted Trustee had been named in the Declaration of Trust, the Certificates and the other Transaction Documents as trustee and issuer in place of the Trustee;

(B) if the Substituted Trustee is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory of the taxing jurisdiction to which (or to any such authority of or in which) the Trustee is subject generally (the "**Trustee's Territory**"), the Substituted Trustee shall give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to Condition 12 (*Taxation*) with the substitution for or the addition to the references in that Condition to the Trustee's Territory of references to the Substituted Territory whereupon the Declaration of Trust and the Certificates shall be read accordingly (and DIB shall also be required to give to the Delegate an undertaking satisfactory to the Delegate in terms corresponding to the last paragraph of Condition 12 (*Taxation*), extending its obligations thereunder to the Substituted Territory);

(C) if any two directors of the Substituted Trustee certify that it will be solvent immediately after such substitution, the Delegate need not have regard to the Substituted Trustee's financial condition, profits or prospects or compare them with those of the Trustee;

(D) the Trustee, the Substituted Trustee and DIB comply with such other requirements as the Delegate may direct in the interests of the Certificateholders; and

(E) such substitution would not in the opinion of the Delegate be materially prejudicial to the interests of the Certificateholders.

(ii) Subject to this Condition 11.2 (*Trustee Events*), the Delegate may agree to the substitution of the Substituted Trustee without obtaining the consent of the Certificateholders (it being acknowledged that each Certificateholder has by virtue of the last paragraph of the preamble to these Conditions authorised each Substituted Trustee to act as Rab-al-Maal pursuant to the Mudaraba Agreement on its behalf).

11.3 Winding-up, dissolution or liquidation

(a) **Proceedings for Winding up**

If a DIB Event occurs and a Dissolution Notice is delivered pursuant to Condition 11.1 (*Dissolution Events*), the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement, and either the Trustee or the Delegate may at its discretion, and the Delegate shall if so requested in writing by the Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding, (in each case subject to Clause 11.3(c) (*Entitlement of Trustee or Delegate*)) (i) institute any steps, actions or proceedings for the winding-up of DIB and/or (ii) prove in the winding-up of DIB and/or (iii) institute any steps, actions or proceedings for the bankruptcy of DIB and/or (iv) claim in the liquidation of DIB (in each case for, subject as set out below, all amounts of Mudaraba Capital, Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit and/or other amounts due to the Trustee on termination of the Mudaraba Agreement in accordance with its terms and the terms of the other Transaction Documents) and/or (v) take such other steps, actions or proceedings which, under the laws of the United Arab Emirates, has an analogous effect to the actions referred to (i) to (iv) above, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 11.3(a) (*Proceedings for Winding Up*), but may take no further or other steps, actions or proceedings to enforce, prove or claim for any payment and provided further that neither the Trustee nor the Delegate may take any steps, actions or proceedings against DIB with respect to any sum that DIB has paid into the Transaction Account in accordance with the Transaction Documents in circumstances where the Trustee has failed to pay that amount to Certificateholders in accordance with these Conditions. No payment in respect of the Transaction Documents may be made by DIB as a result of any steps, actions or proceedings taken pursuant to Condition 11.1 (*Dissolution Events*), nor will the Trustee or the Delegate accept the same, otherwise than during or after a winding-up (or analogous event) of DIB, unless DIB has given prior written notice (with a copy to the Trustee and the Delegate) to, and received no objection from, the Financial Regulator (which DIB shall confirm in writing to the Trustee and the Delegate).

(b) **Enforcement**

Without prejudice to Condition 11.1 (*Dissolution Events*) and the remaining provisions of this Condition 11.3 (*Winding-up, dissolution or liquidation*), the Trustee (or the Delegate) may at its discretion and the Delegate shall if so requested in writing by the Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding and without further notice (subject in each case to Condition 11.3(c) (*Entitlement of Trustee or Delegate*)) institute such steps, actions or proceedings against DIB or against the

Trustee, as it may think fit to enforce any term or condition binding on DIB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of DIB under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations), including, without limitation, any failure by DIB to procure the substitution of the Trustee in the circumstances described in Condition 11.2 (*Trustee Events*). However, in no event shall DIB, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it. Nothing in this Condition 11.3 (*Winding up, dissolution or liquidation*) shall, however, prevent the Trustee (or the Delegate) (i) instituting any steps, actions or proceedings for the winding-up of DIB, and/or (ii) proving in any winding-up of DIB and/or (iii) instituting any steps, actions or proceedings for the bankruptcy of DIB and/or (iv) claiming in any liquidation of DIB and/or (v) taking such other steps, actions or proceedings which, under the laws of the United Arab Emirates, has an analogous effect to the actions referred to in (i) to (iv) above in respect of any payment obligations of DIB arising from the Mudaraba Agreement or any other Transaction Document (including any damages awarded for breach of any obligations).

(c) **Entitlement of Trustee or Delegate**

The Trustee or the Delegate shall not be bound to take any steps, actions or proceedings to enforce or to realise the relevant Trust Assets or any of the actions referred to in these Conditions in respect of DIB or, in the case of the Delegate only, the Trustee to enforce the terms of the Transaction Documents or give a Dissolution Notice (including without limitation, pursuant to Condition 11 (*Dissolution Events and Winding-up*), unless (1) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by the Certificateholders of at least one fifth of the then aggregate face amount of the Certificates outstanding, and (2) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction provided that the Delegate shall not be liable for the consequences of exercising its discretion or taking such steps, actions or proceedings and may do so without having regard to the effect of such action on individual Certificateholders.

(d) **Rights of Certificateholders**

No Certificateholder shall be entitled to proceed directly against the Trustee or DIB or to institute proceedings for the winding-up or claim in the liquidation of DIB or to prove in such winding-up unless (i) the Trustee or the Delegate, having become so bound to proceed or being able to prove in such winding-up or claim in such liquidation, fails to do so within a reasonable period and such failure shall be continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against any of the Trustee or DIB, as the case may be) holds at least one fifth of the then outstanding aggregate face amount of the Certificates, in which case the Certificateholders shall have only such rights against DIB as those which the Trustee or the Delegate is entitled to exercise as set out in Condition 11.1 (*Dissolution Events*) and this Condition 11.3 (*Winding-up, dissolution or liquidation*).

(e) **Extent of Certificateholder remedy**

No remedy against DIB, other than as referred to in this Condition 11 (*Dissolution Events and Winding-up*), shall be available to the Delegate, the

Trustee or the Certificateholders, whether for the recovery of amounts owing in respect of the Transaction Documents or in respect of any breach by DIB of any of its other obligations under or in respect of the Transaction Documents.

(f) **Realisation of Trust Assets**

(i) Following the enforcement, realisation and ultimate distribution of the net proceeds of the relevant Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and neither the Issuer nor the Trustee shall be liable for any further sums and, accordingly, Certificateholders may not take any action against the Issuer, the Trustee, the Delegate or any other person (including DIB) to recover any such sum in respect of the Certificates or the relevant Trust Assets.

(ii) Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Issuer, the Trustee and DIB shall be to enforce their respective obligations under the Transaction Documents.

(iii) The foregoing paragraphs in this Condition 11.3(f) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer or the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Issuer or the Trustee.

12 Taxation

All payments in respect of the Certificates shall be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts ("**Additional Amounts**") so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such Additional Amount shall be payable in relation to any payment in respect of any Certificate:

(a) presented for payment (where presentation is required) in a Relevant Jurisdiction;

(b) the holder of which is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(c) presented for payment (where presentation is required) more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Business Day; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment (where presentation is required) by or on behalf of a Certificateholder who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions, references to the Dissolution Distribution Amount or any Periodic Distribution Amounts payable in respect of a Certificate shall be deemed to include any Additional Amounts payable under this Condition 12 (*Taxation*).

Notwithstanding any other provision in these Conditions, the Issuer and the Paying Agents shall be permitted to withhold or deduct any amounts required by the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), pursuant to any intergovernmental agreement, or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the United States Internal Revenue Service ("**FATCA withholding**"). None of the Issuer, the Trustee and any Paying Agent will have any obligation to pay additional amounts or otherwise indemnify a holder for any FATCA withholding deducted or withheld by the Issuer, the Trustee, a Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

The Mudaraba Agreement and the investment plan therein provides that payments thereunder by DIB (in its capacity as the Mudareb) to the Trustee shall be made net of withholding or deduction of Taxes where required by law and, in such case and/or if Additional Amounts are payable by the Trustee in respect of the Certificates, provides for the payment by DIB of such Taxes and/or amounts equal to such Additional Amounts so that the full amount which would otherwise have been due and payable to the Trustee and/or under the Certificates is received by the Trustee.

13 Prescription

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof.

14 Replacement of Certificates

Should any definitive Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such comptetent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, DIB, the Registrar, the Paying Agent or the Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15 Notices

All notices regarding the Certificates will be deemed to be validly given if mailed to Certificateholders by pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses. Any such notice will be deemed to have been given on the day after being so mailed. The Trustee shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Certificates are for the time being listed or by which they have been admitted to trading.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with evidence of entitlement to the relevant Certificates, with a Paying Agent.

16 Further Issues

The Trustee may from time to time and only in accordance with the Mudaraba Agreement, without the consent of the Certificateholders, create and issue further instruments ranking *pari passu* in all respects (or in all respects save for the date from which profit thereon accrues and the amount of the first periodic distribution amount (or such other equivalent amount) on such further instrument) and so that such further issue shall be consolidated and form a single series with the outstanding Certificates. References in these Conditions to the "Certificates" include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Certificates.

17 Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination

17.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of these Conditions or the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in the aggregate more than 50 per cent. in face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more Eligible Persons present whatever the face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including, reducing or cancelling any amount payable in respect of the Certificates, altering the currency of payment of the Certificates or amending certain covenants given by the Trustee and/or DIB in the Transaction Documents), the quorum shall be one or more Eligible Persons present holding or representing not less than two-thirds in the aggregate face amount of the Certificates for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing not less than one-third in aggregate face amount of the Certificates for the time being outstanding. To be passed, an Extraordinary Resolution requires (i) a majority in favour consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates and, if duly passed, will be binding on all Certificateholders of the Certificates, whether or not they are present at the meeting and whether or not voting.

17.2 The Declaration of Trust provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders.

17.3 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification (other than in respect of a Reserved Matter) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Declaration of Trust or the other Transaction Documents or determine, without any such consent or sanction as aforesaid, that any Dissolution

Event or an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event shall not be treated as such, which in any such case is not, in the opinion of the Delegate, materially prejudicial to the interests of Certificateholders (except as set out in the Declaration of Trust) or may agree, without any such consent or sanction as aforesaid, to any modification to these Conditions or any provisions of the Transaction Documents which, in the opinion of the Delegate, is of a formal, minor or technical nature or to correct a manifest error. No such direction or request will affect a previous consent, waiver, authorisation or determination.

17.4 In connection with the exercise by it of any of its powers, authorities and discretions vested in it (including, without limitation, any modification, waiver, authorisation or determination), the Delegate shall have regard to the general interests of the Certificateholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof) and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim from the Delegate or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders except to the extent provided in Condition 12 (*Taxation*).

17.5 Any modification, abrogation, waiver, authorisation or determination shall be binding on all of the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

18 Indemnification and Liability of the Delegate and the Trustee

18.1 The Declaration of Trust contains provisions for the indemnification of each of the Delegate and the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any steps, actions or proceedings unless indemnified and/or secured and/or pre-funded to its satisfaction.

18.2 Neither the Delegate nor the Trustee makes any representation or assumes any responsibility for the validity, sufficiency or enforceability of the obligations of DIB under the Transaction Documents to which DIB is a party, and shall not under any circumstances have any liability or be obliged to account to the Certificateholders in respect of any payments which should have been made by DIB, but are not so made, and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in the Conditions or in the Declaration of Trust.

18.3 Each of the Trustee and the Delegate is exempted from: (a) any liability in respect of any loss or theft of the Trust Assets or any cash; (b) any obligation to insure the Trust Assets or any cash; and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depositary or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

18.4 Subject to Condition 11.1 (*Dissolution Events*) and Condition 11.3 (*Winding-up, dissolution or liquidation*) the Trustee waives any right to be indemnified by the Certificateholders in circumstances where the Trust Assets are insufficient therefor.

19 Contracts (Rights of Third Parties) Act 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20 Governing Law and Dispute Resolution

20.1 Governing Law

The Declaration of Trust, the Certificates and these Conditions (including the remaining provisions of this Condition 20 (*Governing Law and Dispute Resolution*), and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

20.2 Arbitration

Subject to Condition 20.3 (*Court of law*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust, the Certificates and these Conditions, (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the "**Rules**") of the LCIA, which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 20.2 (*Arbitration*), For these purposes:

(a) the seat of arbitration shall be London;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and

(c) the language of the arbitration shall be English.

20.3 Court of law

Notwithstanding Condition 20.2 (*Arbitration*) above, the Delegate or (only where permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder may in the alternative, and at it sole discretion, by notice in writing to the Trustee and DIB (as applicable):

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 20.4 (*Submission to jurisdiction*) and any arbitration commenced under Condition 20.2 (*Arbitration*) in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing which DIB), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Delegate or (but only where it is permitted to take action in accordance with the terms of the Declaration of Trust) any Certificateholder must promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

20.4 Submission to jurisdiction

If a notice pursuant to Condition 20.3 (*Court of law*) is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England or the courts of the Dubai International Financial Centre (the "**DIFC**"), at the option of the Delegate, shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and DIB submits to the exclusive jurisdiction of such courts;

(b) each of the Trustee, the Delegate and DIB agrees that the courts of England and the DIFC as the case may be (at the option of the Delegate) are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 20.4 (*Submission to jurisdiction*) is for the benefit of the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Delegate and the Certificateholders may take proceedings relating to a Dispute (the "**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

20.5 Appointment of Process Agent

Each of the Trustee and DIB has, in the Declaration of Trust, appointed Maples and Calder at its registered office at 11th Floor, 200 Aldersgate Street, London EC1A 4HD as its agent for service of process and has undertaken that, in the event of Maples and Calder ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Delegate and the Certificateholders of such appointment in accordance with this Condition 20.5 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.6 Waiver of Immunity

Under the Declaration of Trust, DIB has agreed that, to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings or Disputes. Further, DIB has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings or Disputes.

20.7 Waiver of Interest

(a) Each of the Trustee, the Delegate and DIB has irrevocably agreed in the Declaration of Trust that if any arbitration is commenced in relation to a Dispute and/or any Proceedings are brought by or on behalf of a party under the Declaration of Trust, it will (i) not claim interest under, or in connection with, such arbitration and/or Proceedings; and (ii) to the fullest extent permitted by law, waive all and any entitlement it may have to interest awarded in its favour by an arbitrator as a result of such arbitration and/or by a court as a result of such Proceedings.

(b) For the avoidance of doubt, nothing in this Condition 20.7 shall be construed as a waiver of rights in respect of Mudaraba Profit, Final Mudaraba Profit, Periodic Distribution Amounts, Outstanding Payments or profit of any kind howsoever described payable by DIB or the Trustee pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Certificates whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Certificates

The Certificates will be in registered form and will be issued outside the United States to persons who are not U.S. persons in reliance on Regulation S.

The Certificates will be represented by ownership interests in a global certificate in registered form (the "**Global Certificate**"). The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Definitive Certificates in fully registered form.

Holders

For so long as the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the registered holder of the Global Certificate shall, except as ordered by a court of competent jurisdiction or as required by law, be treated as the owner thereof (the "**Registered Holder**"). Each of the persons (other than another clearing system) who is for the time being shown in the records of either such clearing system as the holder of a particular aggregate face amount of such Certificates (the "**Accountholders**") (in which regard any certificate or other document issued by a clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates standing to its account in the records of Euroclear or Clearstream, Luxembourg, as the case may be, other than for the purpose of payments in respect thereof, the right to which shall be vested solely in the Registered Holder, as against the Trustee and an Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Registered Holder, and the expressions "**Certificateholder**" and "**holder of Certificates**" and related expressions shall be construed accordingly. In addition, holders of ownership interests in the Global Certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Cancellation

Cancellation of any Certificate represented by the Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register.

Payments

Payments of any amount in respect of the Global Certificate will, in the absence of any provision to the contrary, be made to the person shown on the Register as the registered holder of the Global Certificate at the close of the Business Day (being for this purpose, a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date for such payment.

None of the Trustee, the Delegate, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payments of the Dissolution Distribution Amount in respect of Certificates represented by the Global Certificate will be made upon presentation and surrender of the Global Certificate at the specified office of the Registrar or such other office as may be specified by the Registrar subject to and in accordance with the Conditions and the Declaration of Trust. Distributions of amounts with respect to book-entry interests in the Certificates held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures. A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be prima facie evidence that payment has been made.

Notices

So long as all the Certificates are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to their Accountholders rather than by publication and delivery as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Whilst any of the Certificates held by a Certificateholder are represented by the Global Certificate, notices to be given by such Certificateholder may be given (where applicable) through Euroclear and/ or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the Common Depositary for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

Record dates will be determined in accordance with the standard practices of Euroclear and Clearstream, Luxembourg.

Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of Euroclear or Clearstream, Luxembourg and their respective direct and indirect participants in accordance with their respective rules and procedures.

Exchange for Definitive Certificates

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Definitive Certificates only upon the occurrence of an Exchange Event. The Trustee will promptly give notice to Certificateholders in accordance with Condition 15 (*Notices*) if an Exchange Event occurs. For these purposes, "**Exchange Event**" means that: (i) a Dissolution Event (as defined in the Conditions) has occurred; or (ii) the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of legal holiday) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar within 10 days following the request for exchange for completion and dispatch to the Certificateholders. A person having an interest in the

Global Certificate must provide the Registrar with a written order containing instructions (and such other information as the Trustee and the Registrar may require) to complete, execute and deliver such Definitive Certificates.

In this Prospectus, "**Definitive Certificate**" means a trust certificate in definitive registered form issued by the Trustee in accordance with the provisions of the Declaration of Trust in exchange for the Global Certificate, such trust certificate substantially in the form set out in the Schedules to the Declaration of Trust.

USE OF PROCEEDS

The net proceeds of the certificates will be paid by the Trustee (as Rab-al-Maal) to DIB (as Mudareb) as contribution of the Mudaraba Capital pursuant to the terms of the Mudaraba Agreement.

DESCRIPTION OF THE ISSUER

General

DIB Tier 1 Sukuk Ltd., a Cayman Islands exempted company with limited liability, was incorporated on 5 February 2013 under the Companies Law (2012 Revision) of the Cayman Islands with company registration number 275278. The Issuer has been established as a company for the sole purpose of issuing the Certificates and entering into the transactions contemplated by the Transaction Documents. The registered office of the Issuer is at P.O. Box 1093, Queensgate House, Grand Cayman, KY1-1102, Cayman Islands, and its telephone number is +1 345 945 7099.

The authorised share capital of the Issuer is U.S.$50,000 ordinary shares of U.S.$1.00 each, 250 of which have been issued. All of the issued shares (the "**Shares**") are fully-paid and are held by MaplesFS Limited as share trustee (the "**Share Trustee**") under the terms of a declaration of trust (the "**Declaration of Trust**") under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Declaration of Trust) and may only dispose or otherwise deal with the Shares with the approval of the Delegate for so long as there are Certificates outstanding. Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power, with the consent of the Delegate, to benefit the Qualified Charities (as defined in the Declaration of Trust). It is not anticipated that any distribution will be made whilst any Certificate is outstanding. Following the Termination Date, the Share Trustee will wind up the trust and make a final distribution to charity. The Share Trustee has no beneficial interest in, and derives no benefit (other than its fee for acting as Share Trustee) from its holding of the Shares.

Business of the Issuer

The Issuer will not have any substantial liabilities other than in connection with the Certificates and any further certificates issued pursuant to the Conditions. The Certificates are the obligations of the Issuer alone and not the Share Trustee.

The objects for which the Issuer is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 5 February 2013.

Financial Statements

Since the date of incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

Directors of the Issuer

The Directors of the Issuer are as follows:

Name:	Principal Occupation:
Andrew Millar	Senior Vice President of Maples Fund Services (Middle East) Limited
Cleveland Stewart	Vice President of MaplesFS Limited

The business address of Andrew Millar is c/o Maples Fund Services (Middle East) Limited, Liberty House, 8th Floor, Office 801, PO Box 506734, Dubai, United Arab Emirates.

The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Issuer.

The Administrator

MaplesFS Limited also acts as the corporate administrator of the Issuer (in such capacity, the "**Corporate Administrator**"). The office of the Corporate Administrator serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Issuer and the Corporate Administrator (the "**Corporate Services Agreement**"), the Corporate Administrator has agreed to perform in the Cayman Islands, the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and to provide certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Administrator have also entered into a registered office agreement (the "**Registered Office Agreement**") for the provision of registered office facilities to the Issuer. In consideration of the foregoing, the Corporate Administrator will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Issuer or the Corporate Administrator may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least three months' notice in writing to the other party with a copy to any applicable rating agency.

The Corporate Administrator will be subject to the overview of the Issuer's Board of Directors.

The Corporate Administrator's principal office is P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands.

The Directors of the Issuer are all employees or officers of the Corporate Administrator or an affiliate thereof. The Issuer has no employees and is not expected to have any employees in the future.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements and the other information contained in this Prospectus. The Financial Statements have been prepared in accordance with the International Financial Reporting Standards. All financial information relating to DIB as at and for the year ended 31 December 2010 set out in this "*Selected Financial Information*" section has been extracted from the restated 2010 financial information contained in the 2011 Financial Statements and not from DIB's audited consolidated financial statements as at and for the year ended 31 December 2010 as originally published. All financial information relating to DIB as at and for the year ended 31 December 2011 set out in this "*Selected Financial Information*" section has been extracted from the restated 2011 financial information contained in the 2012 Financial Statements and not from DIB's audited consolidated financial statements as at and for the year ended 31 December 2011 as originally published. See "*Presentation of certain financial and other information*" above.

The following table sets forth selected financial information for DIB for the years ended 31 December 2012, 31 December 2011 and 31 December 2010. The income statement data and statement of financial position data have been extracted from the Financial Statements and have been presented in AED and, for convenience only, in United States dollars using an exchange rate of U.S.$l = AED 3.6725.

The following tables set out selected key consolidated financial information (in both AED and U.S.$) and consolidated business ratios of DIB as at and for the three financial years ended 31 December 2012, 31 December 2011 and 31 December 2010.

Income Statement Highlights	**For the year ended 31 December 2012**	**For the year ended 31 December 2011**	**For the year ended 31 December 2010**
		(AED millions)	
Income from investing and financing assets	3,286	3,449	3,222
Total income	5,026	5,005	4,709
Impairment loss on financial assets	973	995	801
Impairment loss on non financial assets	70	92	63
Depositors' share of profit	1,316	1,387	1,436
Net profit before tax	1,205	1,063	563
Net profit	1,192	1,056	559
Net profit attributable to equityholders	1,150	1,010	553

Financial Statement Highlights	**As at 31 December 2012**	**As at 31 December 2011**	**As at 31 December 2010**
		(AED millions)	
Total assets	95,365	90,588	89,884
Total liabilities	84,805	80,414	79,611
Total equity	10,560	10,174	10,273
Gross financing and investing assets and investments in bilateral sukuk[(1)]	62,933	58,689	60,128
Impaired financing and investing assets	6,118	6,808	5,012
Non performing investing and financing assets	8,090	8,078	7,347
Collateral held relating to facilities individually determined to be impaired[(2)]	5,541	4,999	3,900
Provisions for impairment[(3)]	3,699	3,509	2,957
Customer deposits	66,801	64,930	63,447

Income Statement Highlights	For the year ended 31 December 2012	For the year ended 31 December 2011	For the year ended 31 December 2010
		(U.S.$ millions)	
Income from investing and financing assets	895	939	877
Total income	1,369	1,363	1,282
Impairment loss on financial assets	265	271	218
Impairment loss on non financial assets	19	25	17
Depositors' share of profit	358	378	391
Net profit before tax	328	290	153
Net profit	325	288	152
Net profit attributable to equityholders	313	275	151

Financial Statement Highlights	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
		(U.S.$ millions)	
Total assets	25,967	24,667	24,475
Total liabilities	23,092	21,897	21,678
Total equity	2,875	2,770	2,797
Financing and investing assets and investments in bilateral sukuk[(1)]	17,136	15,981	16,373
Impaired financing and investing assets	1,666	1,854	1,365
Non performing investing financing assets	2,203	2,200	2,000
Collateral held relating to facilities individually determined to be impaired[(2)]	1,509	1,361	1,062
Provisions for impairment[(3)]	1,007	955	805
Customer deposits	18,189	17,680	17,276

Key Business Rations	As at 31 December 2012	As at 31 December 2011	As at 31 December 2010
Impaired ratio[(6)]	9.7	11.6	8.3
Non performing asset ratio	12.9	13.8	12.2
Provision coverage ratio[(4)]	45.7	43.4	40.3
Overall coverage ratio[(5)]	113.7	105.3	93.3
Total capital adequacy ratio[(7)]	17.4	18.2	17.8
Common Equity Tier 1 ratio	13.9	13.6	12.7
Return on equity[(8)]	12.3	10.9	6.0
Return on assets[(9)]	1.3	1.2	0.6

Notes:

(1) Balance as of 31 December 2012 includes gross financing and investing assets amounting to AED 59,260 million (2011: AED 55,016 million and 2010: AED 59,643 million) and investments in bilateral sukuk amounting to AED 3,673 million (2011: AED 3,673 million and 2010: Nil). See Notes 8(b) and 9(c) to the 2012 Financial Statements. As at 31 December 2010, DIB's investing and financing assets – gross amounted to AED 60,128 million (U.S.$16,373 million). Refer to "*Presentation of certain financial and other information*" for a description of certain reclassifications made in the 2012 Financial Statements.

(2) See Note 8(e) to the 2012 Financial Statements.

(3) Balance at the end of the relevant period. See Note 8(a) to the 2012 Financial Statements.

(4) Being the ratio of cash coverage to non-performing investing and financing assets.

(5) Being the ratio of cash coverage and collateral to non-performing investing and financing assets.

(6) Being, in respect of 2012 and 2011, the ratio of impaired assets to gross financing and investing assets, and investments in bilateral sukuk. In respect of 2010, being the ratio of impaired assets to gross investing and financing assets (as to which, see note (1) above).

(7) Calculated according to Central Bank methodology.

(8) Being the ratio of net profit attributable to equity holders to average equity.

(9) Being the ratio of net profit attributable to equity holders to average assets.

DESCRIPTION OF DUBAI ISLAMIC BANK PJSC

Overview

Dubai Islamic Bank PJSC ("**DIB**") is the world's first full service Islamic bank and now ranks as the third largest Islamic bank in the world, in terms of assets. DIB was established in the Emirate of Dubai on 12 March 1975, with the objective of providing banking and other financial services tailored to adhere to the principles of Islamic *Shari'a*. As of 31 December 2012, DIB ranked as the largest Islamic bank in the UAE in terms of assets, capital and branches, and also ranks amongst the top five banks in the UAE in terms of balance sheet size and customer deposits.

The core business areas of DIB and its consolidated subsidiaries and associates (together, the "**Group**") are Retail & Business Banking, Corporate Banking & Financial Institutions, Real Estate & Contracting Finance, Investment Banking and Treasury. The Group offers a wide range of *Shari'a*-compliant products and services to retail, corporate and institutional clients through a network of 81 branches across the UAE. In addition to its main office and branches in Dubai, DIB operates across all the other Emirates of the UAE, namely Abu Dhabi, Ajman, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain.

The head office of DIB is located on Al Maktoum Street, Deira, P.O. Box 1080, Dubai, UAE and its telephone number is +9714 2953000. DIB is regulated by the Central Bank.

DIB has received the following awards, among others, in recent years in recognition of its leading position within the markets in which it operates:

- Awarded "Best Islamic Bank in the Region" Banker Middle East – 2012
- Awarded "Best Islamic Bank, UAE" World Finance – 2012
- Awarded "Best Islamic Bank in the UAE" Asiamoney – 2012
- Named as one of the world's top 100 companies by World Finance – 2012
- Awarded "Best Distance Banking Service (Electronic Banking Services)" Banker Middle East – 2012
- Awarded "Corporate Finance Deal of the Year 2011 (Emaar Malls Musharakah Syndicated Facility)", "Restructuring Deal of the Year 2011 (Nakheel)" and "Structured Finance Deal of the Year 2011 (Salik One Wakala Syndicated Financing)" Islamic Finance News – 2012. The Salik One Financing was also named as "Deal of the Year" for 2012 by the Banker
- Awarded "Best Sukuk Arranger" and "Best Private Bank" Islamic Business and Finance – 2012
- Awarded "Mudaraba Deal of the Year – ENOC AED 1.1 billion" Islamic Finance – 2011

History

DIB was incorporated in 1975, in Dubai, by a decree issued by the then Ruler of Dubai, H.H. Sheikh Rashid bin Saeed Al Maktoum. After incorporation, DIB was subsequently registered under the Commercial Companies Law No. 8 of 1984 (as amended) as a public joint stock company.

In 1998, following the discovery of a significant fraud, the Government of Dubai injected AED 917 million (U.S.$250 million) into DIB, to become its largest shareholder (increasing its stake from 6 per cent. to 30 per cent.). DIB subsequently recruited a number of professional managers from international and large local financial institutions to improve its management and processes.

As part of its then current strategy to expand in select niche Islamic markets in the Middle East, Africa and Asia, DIB acquired a 60 per cent. stake in the Bank of Khartoum ("**BoK**") in 2005, one of the largest banks in Sudan (measured by the number of branches and ATMs), which stake was subsequently reduced to 52.3 per cent. in 2008 (as at 31 December 2012, this stake has decreased further to 28.4 per cent.). In 2006, DIB established DIB Pakistan Ltd ("**DIB Pakistan**"), a 100 per cent. owned subsidiary, to offer Islamic banking services in Pakistan. DIB also acquired a 20.8 per cent. stake in Jordan Dubai Islamic Bank ("**Jordan DIB**") in 2009. DIB's current strategy with respect to BoK, DIB Pakistan and Jordan DIB is to hold those investments with a view to disposing them if, and when, a commercially attractive opportunity presents itself. In addition to the above, DIB has incorporated several subsidiaries in real estate development (including, Deyaar Development PJSC ("**Deyaar Development**") in 2002, presently an associate) and other related financial services companies (including DIB Capital Limited ("**DIB Capital**") in 2006 and Dar Al Sharia Legal & Financial Consultancy LLC ("**Dar Al Sharia**") in 2008). In November 2010, DIB increased its stake in Tamweel to 58.3 per cent. (see "*— Subsidiaries and Associates — Tamweel*") and, in February 2013, DIB launched the Tender Offer to acquire the shares of the minority shareholders in Tamweel.

During 2008, DIB received AED 3.75 billion of *wakala* deposits from the UAE Ministry of Finance as part of a wider package of measures announced by the Central Bank aimed at ensuring that sufficient liquidity was available to all banks operating in the UAE. During 2009, DIB elected to re-categorise the Wakala Deposits as Tier 2 qualifying finance, which was approved by DIB's shareholders at an extraordinary general meeting held in April 2009.

Shareholders and Capital Structure

Shareholders

The Government of Dubai holds 29.8 per cent. of the share capital of DIB, the Saeed Ahmed Lootah family holds 7.2 per cent., and the UAE Federal Pension Fund has a 4.29 per cent. shareholding. DIB is not aware of any other significant holdings in its shares. DIB's articles of association provide that no single shareholder other than the Government of Dubai is entitled to own more than 10 per cent. of the share capital of DIB.

Capital Structure

As of each of 31 December 2012, 31 December 2011 and 31 December 2010, DIB's authorised, issued and paid up share capital was AED 3.8 billion (U.S.$1.0 billion). DIB's issued share capital comprised 3.8 billion shares of AED 1.0 each as of 31 December 2012.

DIB's shares have been listed on the Dubai Financial Market ("**DFM**") since March 2000.

Pursuant to DIB's articles of association, non-UAE nationals can, in aggregate, own up to a maximum of 15 per cent. of the total share capital of DIB.

See "— *Capital Adequacy*" below for a description of DIB's capital adequacy ratios as at 31 December 2012, 31 December 2011 and 31 December 2010.

Overall Performance

Overview

DIB reported net profits of AED 1,192 million (U.S.$325 million) for the year ended 31 December 2012, as compared to AED 1,056 million (U.S.$288 million) for the year ended 31 December 2011. DIB's net funded income amounted to AED 2,647 million (U.S.$721 million) for the year ended 31 December 2012 compared to AED 2,662 million (U.S.$725 million) for the year ended 31 December 2011.

DIB's non-funded income for the year ended 31 December 2012 was AED 1,063 million (U.S.$289 million) compared to AED 956 million (U.S.$260 million) for the year ended 31 December 2011. Operating income (comprising the aggregate of net funded income and non funded income) was AED 3,710 million (U.S.$1,010 million) and operating costs (comprising personnel expenses, general and administrative expenses and depreciation of investment properties) were AED 1,522 million (U.S.$414 million) for the year ended 31 December 2012 as compared to operating income of AED 3,618 million (U.S.$985 million) and operating costs of AED 1,496 million (U.S.$407 million) for the year ended 31 December 2011. DIB's return on shareholders' funds was 12.3 per cent. and its operating cost to operating income ratio was at 41 per cent. for the year ended 31 December 2012 compared to 10.9 per cent. and 41 per cent., respectively, for the year ended 31 December 2011.

DIB reported net profits of AED 1,056 million (U.S.$288 million) for the year ended 31 December 2011, as compared to AED 559 million (U.S.$152 million) for the year ended 31 December 2010. DIB's net funded income rose by 21 per cent. to AED 2,662 million (U.S.$725 million) for the year ended 31 December 2011 from AED 2,199 million (U.S.$599 million) for the year ended 31 December 2010. This increase in net funded income was principally due to the acquisition of a controlling interest in Tamweel during November 2010 and, accordingly, its net funded income for the full year ended 31 December 2011 is reflected in the 2011 Financial Statements. Further reasons for the increase in net funded income were (i) an increase in income from investments in *Sukuk* (which increased by AED 141 million (U.S.$38 million) during the year ended 31 December 2011 from 376 million (U.S.$102 million) during the year ended 31 December 2010) and (ii) a reduction in the profit rates paid to depositors reflecting a fall in market profit rates.

Non-funded income decreased by 11 per cent. to AED 956 million (U.S.$260 million) for the year ended 31 December 2011 from AED 1,074 million (U.S.$292 million) for the year ended 31 December 2010. This was principally due to DIB accounting for higher gains on sales of investments during 2010 compared to during 2011. Operating income was AED 3,618 million (U.S.$985 million) and operating costs were AED 1,496 million (U.S.$407 million) for the year ended 31 December 2011 as compared to operating income of AED 3,273 million (U.S.$891 million) and operating costs of AED 1,383 million (U.S.$377 million) for the year ended 31 December 2010. The increase in operating costs during the year ended 31 December 2011 compared to the year ended 31 December 2010 principally reflected the effects of consolidating Tamweel.

DIB's share of profits from its associates amounted to AED 60 million (U.S.$16.4 million) during the year ended 31 December 2012 compared to AED 29 million (U.S.$7.8 million) during the year ended 31 December 2011. DIB's share of loss from its associates amounted to AED 1,100 million (U.S.$300 million) for the year ended 31 December 2010. DIB's share of losses of associates during 2010 principally reflected an impairment charge in respect of all of its major classes of assets recognised by Deyaar Development during that financial year. As noted above under "*Presentation of Certain Financial and Other Information*", management of Deyaar Development re-tested this impairment charge on its assets during the financial year ended 31 December 2011 in light of then current market conditions and concluded that it should be increased. Accordingly, Deyaar Development restated its financial statements for the year ended 31 December 2011 for the comparative amounts for the year ended 31 December 2010. As a result, DIB made a prior year adjustment in the 2011 Financial Statements (see Note 59) as a result of which its share of losses from associates for the year ended 31 December 2010 was increased from AED 847 million (U.S.$231 million) to AED 1,100 million (U.S.$300 million) in the restated financial statements for the financial year ended 31 December 2010. No such losses were accounted for by Deyaar Development in 2011. Further, DIB also accounted for AED 637 million (U.S.$173 million) as a gain on acquiring a controlling interest in Tamweel in 2010 (see "— *Subsidiaries and associates*" below). No such exceptional gains were accounted for in 2011 or 2012. DIB's annualised return on shareholders' funds was 10.9 per cent. and the operating cost to operating income ratio was at 41 per cent. for the year ended 31 December 2011.

For the purposes of the analysis set out above, "**net funded income**" is calculated as the aggregate of the following line items in DIB's consolidated income statement: (i) income from Islamic financing and investing assets, (ii) income from investments in Islamic *Sukuk* and (iii) income from short-term international *murabahats* and *wakala* (line items (i), (ii) and (iii) together, "**total funded income**") less depositors' and Sukuk holders' share of profits, and "**non funded income**" is calculated by deducting total funded income from the total income line item set out in DIB's consolidated income statement.

The following tables show the breakdown, by the segments indicated, of DIB's total net profit for the financial years ended 31 December 2012, 31 December 2011 and 31 December 2010:

	Year ended 31 December					
	2012		2011		2010	
	(AED millions, except percentages[(1)])					
Segmental Information						
Retail & Business banking	578	44%	541	41%	543	27%
Wholesale banking	97	7%	184	14%	128	7%
Real Estate	(140)	—	(255)	—	(1,408)	—
Treasury	483	36%	440	34%	340	17%
Others	174	13%	147	11%	956	49%
Total net profit	1,192	100%	1,056	100%	559	100%

Note:

(1) In light of the losses made by the real estate segment during each of the financial years covered by this table, percentages have been calculated on the basis of the aggregate profit generated by each of the other segments.

The following table sets out a breakdown of DIB's gross Islamic financing and investing assets by product type as at 31 December 2012:

	Retail		Non-Retail		Consolidated
	(AED millions, except percentages)				
Financing Assets					
Commodities murabahat	1,718	7%	2,097	6%	3,815
International murabahat (long term)	—	0%	286	1%	286
Vehicles murabahat	5,653	22%	—	0%	5,653
Real estate murabahat	1,431	6%	2,834	8%	4,265
Total murabahat	8,802	35%	5,217	15%	14,019
Istisna'a	—	0%	4,370	13%	4,370
Ijara	—	0%	11,897	35%	11,897
Home finance – Iiara	12,318	49%	—	0%	12,318
Islamic credit cards	393	2%	—	0%	393
Salam finance	4,687	19%	—	0%	4,687
Less: Deferred Income	(1,189)	(5%)	(1,129)	(3%)	(2,318)
Total	**25,011**	**100%**	**20,356**	**60%**	**45,366**
Investing Assets					
Musharakat	—	0%	6,824	20%	6,824
Mudaraba	—	0%	3,895	11%	3,895
Wakalat	—	0%	3,174	9%	3,174
Total	—	0%	13,893	40%	13,893
Total	**25,011**	**100%**	**34,249**	**100%**	**59,260**

The information set out in the table above has not been audited and is derived from DIB's internal management financial information.

For further information, see "— *Business activities*" below.

DIB's total portfolio of Islamic financing and investing assets (net of provisions) was AED 55,560 million (U.S.$15,129 million) as at 31 December 2012, an increase of 7.9 per cent. from AED 51,507 million (U.S.$14,025 million) as at 31 December 2011 (AED 57,171 million (U.S.$15,567 million) as at 31 December 2010). The distribution of DIB's total portfolio of Islamic financing assets across economic sectors is oriented towards government, construction, real estate, trade, financial institutions, services and consumer banking, which is in line with the domestic economy.

A description of the concentrations in DIB's Islamic financing and investing assets portfolio is set out below under "– *Risk Management – Portfolio Concentrations*".

As at 31 December 2012, 3.7 per cent. of DIB's gross Islamic financing and investing assets portfolio is located outside the UAE. DIB has implemented risk management methods to mitigate and control these and other market risks to which DIB is exposed (see "– *Risk Management*" below).

DIB maintains a securities portfolio of high credit quality. DIB's policy is to maintain exposures rated "BBB" and above (or the equivalent). DIB has had no direct exposure to collateralised debt obligations, structured investment vehicles and other sub-prime related issues. The securities portfolios are concentrated in the GCC and MENA markets (see further Notes 9 and 10 to the 2012 Financial Statements set out elsewhere in this Prospectus) and, in particular, 88 per cent. of the securities portfolios are concentrated in the UAE as at the date of this Prospectus.

The following table provides a breakdown of DIB's investment portfolio as at 31 December 2012, 31 December 2011 and 31 December 2010, respectively:

	As at 31 December					
	2012		**2011**		**2010**	
	(AED millions, except percentages)					
Investments in Sukuk						
Available for sale	—	—	—	—	1,195	15%
Amortised cost	11,089	100%	12,688	100%	7,005	85%
	11,089		**12,688**		**8,200**	
Other Equity Investments						
Investments carried at FVTPL[1]	2	—	53	3%	108	6%
Investments carried at FVTOCI[2]	2,143	100%	1,981	97%	—	—
Available for sale	—	—	—	—	1,665	94%
	2,145		**2,034**		**1,773**	

Notes:

(1) Fair value through profit and loss.

(2) Fair value through other comprehensive income.

Capital Adequacy

DIB calculates its risk asset ratio in accordance with capital adequacy guidelines established by both the Central Bank as well as those established by the Basel Committee Guidelines. As at 31 December 2012, 31 December 2011 and 31 December 2010, respectively, these ratios were as follows:

See further "*Capital adequacy*" below.

	As at 31 December		
	2012	**2011**	**2010**
	(AED millions, except percentages)		
Capital adequacy in accordance with Basel II			
Capital base	13,041	13,737	14,052
Credit risk	69,354	70,353	73,395
Market risk	1,910	1,175	1,986
Operational risk	3,841	3,745	3,772
Risk weighted assets	**75,105**	**75,273**	**79,154**
Risk asset ratio (Basel II)	**17.4%**	**18.2%**	**17.8%**
Common Equity Tier 1 Ratio	13.9%	13.6%	12.7%

Funding

DIB's bank and customer deposits together totalled AED 72,959 million (U.S.$19,866 million), AED 68,982 million (U.S.$18,783 million) and AED 67,856 million (U.S.$18,477 million) as at 31 December 2012, 31 December 2011 and 31 December 2010, respectively. Customer deposits amounted to AED 66,801 million (U.S.$18,189 million), AED 64,930 million (U.S.$17,680 million) and AED 63,447 million (U.S.$17,276 million) as at 31 December 2012, 31 December 2011 and 31 December 2010, respectively, and represented 91.6 per cent., 94.1 per cent. and 93.5 per cent. respectively, of total bank and customer deposits as at those dates.

The following table shows the sources of DIB's funding as at 31 December 2012, 31 December 2011 and 31 December 2010, respectively:

	As at 31 December					
	2012		2011		2010	
	(AED millions, except percentages)					
Customer deposits	66,800.9	70.0%	64,929.9	71.7%	63,447.1	70.6%
Due to banks	6,158.3	6.5%	4,052.4	4.5%	4,409.4	4.9%
Sukuk financing instruments	4,674.0	4.9%	4,174.0	4.6%	4,176.0	4.6%
Medium term wakala	3,752.5	3.9%	3,752.5	4.1%	3,752.5	4.2%
Other liabilities and zakat	3,419.1	3.6%	3,505.9	3.9%	3,826.3	4.3%
Equity	10,559.9	11.1%	10,173.8	11.2%	10,273.1	11.4%
Total funding	**95,364.7**	**100%**	**90,588.5**	**100%**	**89,884.4**	**100%**

See further "*Risk Management – Liquidity risk and funding management*" below.

Strategy

2012-2014 Strategic Summary

DIB's primary objective is to maintain its position as the leading Islamic financial institution in the region as well as in other selected strategic markets. DIB defines its strategic objectives within a three year rolling period, which currently comprises the years 2012 to 2014 (inclusive). This allows it to refine its long-term strategy and develop short term specific strategic and business goals.

Prior to the onset of the global credit crisis during 2008 and 2009 (see "*Risk Factors – Risks Relating to DIB – Political, economic and related considerations*"), DIB pursued a strategy of growth within all of its business units. When the global credit crisis began, DIB altered its strategy in order to protect the bank from the effects of the crisis. In particular, DIB determined to focus growth within the retail sector and began to run-off its corporate real estate finance portfolio in order to attempt to protect itself from the downturn in the UAE real estate sector. In anticipation of customer defaults arising from the credit crisis (in particular, in relation to the UAE real estate sector), DIB also significantly increased its impairment provisions during 2009 and 2010 in order to protect its Islamic financing and investing assets. In this connection, DIB's provisions for impaired financing assets increased from AED 1.2 billion (U.S.$0.3 billion) as at 31 December 2008 (equating to 2.3 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date) to AED 1.9 billion (U.S.$0.5 billion) as at 31 December 2009 (equating to 3.9 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date), to AED 3.0 billion (U.S.$0.8 billion) as at 31 December 2010 (equating to 5.2 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date), to AED 3.5 billion (U.S.$1.0 billion) as at 31 December 2011 (equating to 6.8 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date) and to AED 3.7 billion (U.S.$1.0 billion) as at 31 December 2012 (equating to 6.7 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date).

The most recent three-year plan (approved in November 2011) is a continuation of the broader strategic direction set by DIB and will conclude by the end of 2014. The plan aims to maintain

DIB's position as the largest Islamic bank in the UAE and to establish DIB as one of the top five banks in the UAE, in terms of balance sheet size. DIB's plan includes the following initiatives and goals:

- DIB's principal strategy for growing its business since the global liquidity crisis began has been, and continues to be, to expand its core Islamic finance business by enhancing retail banking products and services. In particular, DIB intends to enhance its services provided to the more profitable upper mass segment whilst expanding its retail branch network to approximately 100 branches in the next two to three years and standardising the services provided to the middle and mass segments to increase volumes and reduce costs, respectively. DIB also intends to place increased focus on developing new products and services and enhance existing products and services such as investment sales and credit cards and brokering. In addition, DIB also intends to maximise opportunities for cross-selling more of its products to each of its existing customers and, in particular, has set itself a target of enhancing its cross-sell ratio by a minimum of 10 per cent. per annum for each of the next three years. In accordance with its principal strategy of growing its core retail banking business, DIB also plans to position Tamweel as the specialist mortgage financing institution for the Group.

- To continue its strategy of reducing its direct exposure to corporate real estate assets and, accordingly, it is running-off its existing commercial real estate finance portfolio and is not currently entering into new financing arrangements with respect to corporate real estate assets.

- To position itself so that it is able to make selective growth within the corporate finance business line. In order to achieve this, DIB intends to enhance its investment banking capabilities further in order to benefit from the increasing opportunities emerging in the Gulf region, particularly for *Shari'a*-compliant corporate finance deals in the UAE and the wider region, by partnering with regional and international banks, conducting business through its subsidiaries and marketing activity in the region. DIB also intends to develop bank assurance as a separate business line.

- To achieve diversification in income streams by increasing fee income through a greater focus on retail financing, trade financing, debt capital markets and corporate banking, and bancassurance and enhanced cash management offerings to the bank's corporate clientele.

- To consider carefully any opportunity that may arise to attain geographical diversification by pursuing growth in GCC and select Islamic markets through acquisitions or establishing subsidiaries and branches, and pursuing strategic partnerships and co-operation agreements with local partners.

- To become the best-in-class service provider in the banking sector by developing a culture of excellence that surpasses competition in local and international markets.

- To continue to enhance risk management across all of its core businesses.

DIB's strategy is continually monitored and reviewed by its management through regular off-sites and senior management meetings. The management approved strategy is also presented to the Board of Directors for its final approval. The Balance Scorecard ("**BSC**") approach is used to integrate the strategic plans into individual and departmental goals, and helps DIB manage and monitor its performance.

The BSC enables DIB to identify goals, manage and measure performance, and report on achievements with respect to the priorities of each key stakeholder group. DIB implements quantitative measures wherever feasible, but tracks both qualitative and quantitative indicators of performance in terms of both financial and non-financial outcomes. The BSC framework forms an integral part of DIB's performance management system.

DIB's Strategy, Investor Relations and Project Management Office reports the performance to the Board of Directors and Executive Management Committee on a periodic basis.

Competition and Competitive Advantages

As indicated above, aside from being the largest Islamic bank in the UAE, as of 31 December 2012, DIB ranked fifth by total assets, seventh by net profits and fifth by customer deposits among all the banks in the UAE. DIB faces competition from both Islamic and conventional banks operating in the UAE. Within its investment banking and capital market activities, DIB also competes with major international banks and investment firms for transaction mandates.

DIB believes that it enjoys a number of key competitive advantages, including the following:

Strong and trusted brand

DIB believes that it has a strong and trusted brand. Management believes that DIB's market position and strong brand recognition reflect DIB's focus on high-quality customer service (see below), its established track record in both consumer and wholesale banking, its targeted marketing to consumers and its involvement in a number of the UAE's most prominent infrastructure and other development projects.

Established track record and knowhow

As the first Islamic bank in the UAE, DIB has a proven track record in developing and offering Islamic finance products to meet the increasingly sophisticated needs of its customers.

Innovative and extensive product range

DIB endeavours to provide its customers with a wide range of innovative products under its *Al Islami* brand, which allows it to meet their diversified and sophisticated needs. DIB believes that it is able to offer its retail customers all of the banking products that they may require and, accordingly, that there is little need for them to approach DIB's competitors for alternative products.

Shari'a compliance credibility

DIB maintains a highly reputed Fatwa and Sharia Supervisory Board (the "**Sharia Board**"). DIB aims for high levels of *Shari'a* compliance by offering all its products and services in strict conformity with the parameters approved by the Sharia Board. This helps to ensure that DIB's reputation as a premier Islamic bank is maintained at all times.

Stable funding base

DIB has a diversified deposit base that includes retail and corporate customers, government bodies and public sector agencies which, taken together, are regarded by DIB as a relatively stable and a low cost source of funding.

Quality of service and speed of response time

DIB believes that the high quality of customer service which it provides distinguishes it from its principal competitors. Employees are trained regularly in managing clients, new products and market developments so as to provide a better service to clients and to enable new products and services to be introduced to the market.

Experienced and committed management

The majority of DIB's senior management team have been with the bank for several years and, prior to joining DIB have had many years of regional and global experience with other leading international banks. The team has considerable experience in the Islamic finance industry and knowledge of the requirements relating to the operation of Islamic finance institutions, see "*Management and Employees*" below.

Strength in staff training

DIB provides regular and comprehensive training to staff at all levels to enable them to improve their skills. This is done through a dedicated training division within DIB. DIB regularly sends its staff on courses, conferences and workshops on Islamic banking products to ensure that they are well informed about international and regional developments.

Systematic approach to developing strategy

DIB adopts a systematic approach in developing its strategy through comprehensive analyses of the domestic and international macro economic and business environments and aligning its strategy with any major trends identified. This formalised approach is then used to link the overall strategic plan and agenda to the BSC performance management system (which is the primary tool used to measure individual and departmental performance) and thus to ensure that DIB meets its short-, medium- and long-term strategic objectives.

Links with the Government of Dubai

DIB has a good relationship with the Government of Dubai which enables it to be at the forefront of the ongoing financing of the development of Dubai, see "– *Shareholders and Capital Structure*" above.

Links with the community

DIB has always maintained strong links with the local community and intends to continue to promote the development of society in the UAE. It sees this as an important feature in enhancing its position as a premier Islamic bank. For example, it has been active in promoting "Emiratisation", the process of employing and nurturing UAE nationals with a view to encouraging them to participate in and improve the economy of the UAE.

Business activities

The principal activities of the Group are focused around five core business areas: (i) Retail & Business Banking; (ii) Corporate Banking & Financial Institutions; (iii) Real Estate & Contracting Finance; (iv) Investment Banking; and (v) Treasury.

For accounting purposes, DIB divides its business into the following primary reporting segments: (a) retail and business banking (which broadly reflects the Retail & Business Banking business line); (b) wholesale banking (which broadly reflects the Corporate Banking and Investment Banking and Contracting Finance business lines); (c) real estate (which reflects the Real Estate business line); (d) treasury (which reflects the Treasury business line); and (e) others (principally comprising internal assets and liabilities of DIB which are not related to those of its external customers).

The following table sets out a breakdown of certain income and profit information for each of DIB's primary reporting segments for the three years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively.

	Retail and business banking			Wholesale banking			Real estate		
	31 December								
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(AED millions)								
Net operating revenue	1,918	1,836	1,615	1,031	1,227	1,077	(51)	(164)	(215)
Share of profit/(loss) of associates	—	—	—	60	38	26	—	(9)	(1,126)
Gain on acquiring controlling interest	—	—	—	—	—	—	—	—	—
Operating expenses	(1,054)	(1,047)	(894)	(244)	(243)	(297)	(89)	(81)	(67)
Provision for impairment	(286)	(248)	(178)	(750)	(838)	(677)	—	—	—
Profit for the period before tax	578	541	543	97	184	129	(140)	(254)	(1,408)
Income tax									
Profit for the period									

	Treasury			Other			Total		
	31 December								
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(AED millions)								
Net operating revenue	504	461	360	308	258	436	3,710	3,618	3,273
Share of profit/(loss) of associates	—	—	—	—	—	—	60	29	(1,100)
Gain on acquiring controlling interest	—	—	—	—	—	637	—	—	637
Operating expenses	(21)	(22)	(21)	(115)	(103)	(105)	(1,523)	(1,496)	(1,384)
Provision for impairment	—	—	—	(6)	(1)	(8)	(1,042)	(1,087)	(863)
Profit for the period before tax	483	439	339	187	154	960	1,205	1,064	563
Income tax							(13)	(7)	(3)
Profit for the period							1,192	1,057	560

The following table sets out a breakdown of DIB's segment assets, liabilities and capital expenditure (principally relating to expenditure on information technology and opening new, and refurbishing existing, branches) for each of its primary reporting segments as at 31 December 2012, 31 December 2011 and 31 December 2010.

	Retail and business banking			Wholesale banking			Real estate		
	31 December								
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(AED millions)								
Segment assets	25,179	23,917	23,718	35,873	31,791	38,117	3,650	3,875	4,601
Segment liabilities and equity	48,780	47,519	46,863	21,878	20,894	21,197	448	898	294
Capital expenditure	24	17	28	24	17	28	—	—	—

	Treasury			Other			Total		
	31 December								
	2012	2011	2010	2012	2011	2010	2012	2011	2010
	(AED millions)								
Segment assets	12,512	13,940	9,598	18,151	17,065	13,850	95,365	90,588	89,884
Segment liabilities and equity	11,715	8,717	8,925	12,544	12,562	12,607	95,365	90,588	89,884
Capital expenditure	16	12	19	16	12	19	80	58	94

Set out below is an overview of the key business activities of the Group.

Retail & Business Banking

DIB's Retail & Business Banking Group (the "**RBB**") is the largest business activity group within the Group. DIB offers its retail and business banking services through a network of 81 branches (38 of which are located in Dubai, 27 in Sharjah and 16 in Abu Dhabi), 413 automated teller machines ("**ATMs**"), 90 cash deposit machines ("**CDMs**") and 11 electronic banking terminals ("e-branches") across the UAE (each as at the date of this Prospectus) as well as through internet and telephone banking services. DIB offers customers a broad range of retail products and services under its "*Al Islami*" brand, including:

- *Auto finance*

  DIB's auto finance product finances vehicle purchasing for individuals and businesses in a *Shari'a* compliant manner. DIB has established itself as one of the leading providers of auto financing in the UAE.

- *Shari'a compliant cards*

  DIB has a standard Visa debit card linked to current and savings accounts as well as the *Al Islami* credit card with a fixed monthly subscription fee. The *Al Islami* credit card offers customers the ability to utilise credit (*Qard ul Hassan*) up to the limit assigned and requires repayment of a minimum of 10 per cent. of the utilised amount each month. DIB is one of the leading providers of Islamic credit cards in the UAE.

- *Personal finance*

  DIB's personal finance product was launched in December 2005 to cater to the personal financing needs of individuals, and was originally provided in the form of *murabaha* and *ijara* products to cater to all non-cash personal financing needs of customers. In 2010, DIB launched *Al Islami Salam*, which provides customers with an upfront cash payment. The *Al Islami Salam* product is based on a fixed price sale contract whereby the customer gets the full price as a cash payment upfront and delivers the relevant goods on a deferred basis.

- *Retail real estate finance*

  Retail real estate finance is now offered exclusively through Tamweel (see "— *Subsidiaries and Associates*"). DIB no longer directly originates any retail real estate finance products. In this connection, Tamweel has, since January 2011, been servicing DIB's portfolio of freehold residential mortgages in accordance with a service agreement between them. DIB, through Tamweel, is one of the leading providers of retail real estate finance in the UAE.

- *Small business finance*

  The RBB also offers *Shari'a* compliant financing solutions to small businesses. The products are generally tailored to the needs of each client. In particular, in December 2012, DIB launched its "SME Business Solutions" suite of *Shari'a* compliant products and services specifically developed to support the growth of small and medium-sized enterprises.

- *Investment funds*

  DIB offers a range of *Shari'a* compliant investment products to suit its clients' investing needs across various asset classes, including cash, commodities, fixed income securities and equities. DIB has also partnered with leading investment houses to provide a range of investment choices with varied currencies and maturities, exposures to different markets and capital protection options.

- *IPO/capital markets subscription services*

  DIB offers subscription services on selected IPOs. DIB provides this service to companies approved for investment in accordance with *Shari'a* law.

- *Wajaha*

  Wealth management services are provided through four exclusive Wajaha centres in Abu Dhabi, Al Ain, Dubai and Sharjah. These branches offer personal relationship managers, financial planning services and tailor-made products as well as offering a number of other benefits which are exclusive to DIB's Wajaha clients, such as international concierge services, diamond studded credit cards, travel insurance, ticket exchange and travel desk and cash services.

- *Private banking*

  Private banking targets high net worth customers, catering to their specific investment and financial needs.

- *Johara (Ladies) Banking*

  Johara is the brand name that represents DIB's exclusive ladies branches/sections for female customers. All staff at these locations are female. The Johara branches offer the full range of DIB's products to its clients.

Other Delivery Channels

In addition to its 81 branches in the UAE, DIB has expanded into self-service electronic delivery channels by offering services such as internet banking, telephone banking and e-branches:

- *Internet and Phone banking*

  DIB offers online and mobile telephone banking facilities, giving customers greater flexibility to deal with their accounts by offering a range of account enquiry and payment services. During April 2012, DIB introduced an Arabic on-line interface to its internet banking service in order to allow all of its on-line transactions to be conducted in the Arabic language.

- *E-branches*

  In DIB's virtual branches, customers can utilise banking services such as ATMs, CDMs and instant cheque machines, and an "internet kiosk" for secure online banking and phone banking which connects them to customer service agents. In addition, customers can make requests for manager cheques, demand drafts, swift transfers, the issue of new cheque books, the re-issue of ATM cards, e-statement registrations, SMS banking registrations and applications for pre-designated fund transfers. DIB's e-branches also offer instant approvals for auto finance, personal finance and credit cards.

For a description of DIB's gross retail Islamic financing and investing assets by product type as at 31 December 2012, see "— *Overall Performance*" above.

Corporate Banking & Financial Institutions

DIB offers a range of *Shari'a* compliant solutions to its corporate clients in the UAE, the GCC and in other niche markets. The Corporate Banking & Financial Institutions Group (the "**CB&FI**") comprises the following teams (which are organised on both a geographical and product-specific basis):

- private sector (Dubai region), which supports DIB's corporate clients based in and around Dubai;
- public sector (Dubai region), which supports DIB's public sector clients based in and around Dubai;
- GCC, Structured Finance ("**SF**") and Financial Institutions ("**FIs**"), which comprises:
  - *GCC and SF*

    DIB's SF unit principally deals with all of the bank's cross-border activities relating to project finance, syndicated lending, structured trade finance, inventory financing and receivables financings. This unit provides plain vanilla financing, including bilateral facilities, to GCC sovereigns, quasi-sovereigns and private sector companies located outside the UAE. The GCC and SF unit also provides a range of debt capital market products to GCC customers (excluding the UAE), including syndications, straight and convertible *Sukuk* products.
  - *Financial Institutions*

    DIB's FI unit primarily focuses on building and maintaining relationships with the FI sector across the globe in order to assist with smooth trade inflows and outflows. Relations range from authenticated communication links by way of SWIFT RMA to trade, treasury and account maintenance in different currencies. DIB's network of correspondent banks comprises leading financial institutions which provide trade services, which are intended to add value and service to DIB's branches and business units. DIB's correspondent banks offer one or more of the following services: remittance and payments, advisory and confirmations;
- Corporate Banking unit, Abu Dhabi, which supports and manages business from clients based in Abu Dhabi City as well as adjoining areas and cities in the southern and eastern region (including Al Ain);
- Jebel Ali and Northern Emirates Region, which supports DIB's corporate and financial institutional and public sector clients based in the Jebel Ali and Northern Emirates regions; and
- transaction banking, which provides specialist product advice (through the Ahlan Banking Service) to cater for clients' daily banking needs and handles customer queries, auto faxing and electronic reporting. Internet banking solutions for cash management and trade finance are also available.

DIB believes that the strengths of the CB&FI Group are:

- its in-depth specialisation within the UAE and GCC sectors;
- its deep understanding of its customers' businesses;
- the comprehensive and innovative range of services and strategic, solution-driven capabilities offered to its corporate clients (see below); and
- innovative financial solutions covering corporate finance, investment banking, capital markets and syndications products, project finance, trade and commodity finance, treasury and corporate banking, international banking services and securities.

DIB has designed and implemented a range of modern, Islamic financing instruments which are intended to meet the needs of its corporate and financial institution clients. The products offered by the CB&FI teams include goods financing and specific Islamic financing products such as Ijara financing, Mudaraba financing and Wakala/Wakala Murabaha financing to cater to its clients' trade, working capital and medium- to long-term financing requirements. The categories of products and services offered by the CB&FI Group are:

- Financial Products and Solutions, which include Murabaha, Mudaraba and Musharaka products tailored to the needs of the bank's wholesale banking customers;
- Trade Finance Services, which provide an extensive range of trade-related services covering sectors such as manufacturing, services, construction, retail and transportation; and
- Transaction Banking Solutions, covering:
  - liabilities and deposits management;
  - cash management products and services (including services in relation to payments, collections, escrow collections, account management and liquidity and receivables management); and
  - an internet based platform for corporate clients (which allows them to perform on-line account management, make electronic payments and receive trade reports).

For a description of DIB's gross non-retail Islamic financing and investing assets by product type as at 31 December 2012, see "— *Overall Performance*" above.

The CBG manages around 500 relationships and is instrumental in leveraging its client relationships to cross sell other products offered by DIB, including investment banking and treasury services.

Real Estate & Contracting Finance

Real Estate Finance

Historically, DIB has been one of the leading providers of real estate finance services in the UAE. DIB played a significant role in supporting corporate real estate developments, including the construction of commercial property and residential estates. The Real Estate Finance Group is managed by a specialist team with extensive experience in this field.

Standard Islamic financing products offered include Istisna financing, Murabaha acquisition finance, diminishing Musharaka and Ijara lease financing.

Contracting Finance

The Contracting Finance Group provides financing to contractors executing building, electrical and mechanical infrastructure works across a range of sectors (including the oil, gas, power and water sectors). The Contracting Finance Group's customer base includes well known local, regional and international construction groups, and has supported its customers in executing many prestigious projects within the UAE, regionally in the GCC and in many other Arab countries. To date, the Contracting Finance Group has successfully completed over 300 projects with a total value of approximately AED 100 billon.

The product range offered by the Constructing Finance Group includes Islamic financing products such as Mudaraba, Murabaha, Ijara, letters of guarantee and letters of credit ("**LCs**"). DIB believes that its large underwriting capability and its close association with other local and international banks allows it to support the majority of its clients' projects.

Investment Banking

DIB believes that it is one of the leading players in Islamic financing markets for *Sukuk* originated in the GCC and has considerable experience of assisting corporate, institutional as well as sovereign and quasi-sovereign clients with their financing requirements. DIB's investment banking business unit comprises a team of dedicated professionals who assist the bank's clients with innovative *Shari'a*-compliant capital raising and financing solutions which are in-line with evolving client requirements and market conditions.

DIB's Investment Banking business group assists the bank's clients in raising debt and equity in the primary and secondary markets. DIB's investment banking unit focuses in particular on structuring and executing *Sukuk* transactions as well as syndicated facilities, project finance transactions and club finance facilities. DIB has been a significant player in the capital markets and bank syndication markets, frequently working closely with local, regional and international banks as a joint lead arranger or originator.

DIB's investment banking business was historically based in the DIFC and has recently been aligned with Corporate Banking to provide the capital markets and the syndications team with better access to DIB's customer relationships. The Investment Banking team comprises professionals with previous experience from international financial institutions and has particular experience in structuring innovative products for DIB's corporate clients.

Treasury

The Treasury Group forms an essential part of DIB's commitment to the Islamic compliant investment banking industry. The Treasury Group offers a comprehensive range of products backed by DIB's expert understanding of local and international markets. The Treasury Group works closely with the CB&FI and the RBB (in particular the private banking department teams) and also engages in Islamic derivatives business. Its principal customers are DIB's corporate customers, high net worth individuals and financial institutions. The products offered to such customers include: plain vanilla currency contracts, flexible delivery currency contracts, profit-enhanced products, multi-currency hedging instruments and other bespoke Islamic-compliant financial solutions.

The Treasury Group is responsible for managing DIB's liquidity requirements, sukuk investment portfolio and funding through the capital markets, and acts under the supervision of the Asset and Liability Management Committee ("**ALCO**"). Asset and liability management is conducted by the Treasury Group in accordance with Central Bank liquidity ratios. The Treasury Group is also responsible for the implementation of risk management initiatives as directed by ALCO as explained further under "— *Risk Management*".

Subsidiaries and Associates

As of 31 December 2012, DIB had 39 consolidated subsidiaries, seven significant associates and four joint ventures, details of which are set out in Notes 11, 16 and 17 of the 2012 Financial Statements. Of these, DIB considers the following to be key subsidiaries and associates in terms of revenue and future growth potential:

DIB Capital (DIFC)

DIB Capital was incorporated as a subsidiary of DIB in 2006. As of 31 December 2012, DIB Capital is 95.5 per cent. owned by DIB and the remainder is held beneficially by DIB through a nominee. DIB Capital is regulated by the Dubai Financial Services Authority. DIB Capital's business is focused on portfolio management, direct equities, structured finance advisory and similar activities supporting corporate banking business. For the year ended 31 December 2012, DIB Capital's net income was AED 8.8 million (U.S.$2.4 million) compared to AED 8.6 million (U.S.$2.3 million) for the year ended 31 December 2011 and AED 7.5 million (U.S.$2.0 million) for the year ended 31 December 2010.

Tamweel PJSC (UAE)

Tamweel was originally established in Dubai in November 2000. Tamweel is the specialist mortgage financing institution for the Group. Tamweel's core business is the provision of *Shari'a* compliant home financing solutions to real estate buyers in the UAE. Tamweel is licensed by the Central Bank to operate as an Islamic finance company and its shares are traded on the DFM.

During late 2008, 2009 and into 2010, the real estate finance market in the UAE was adversely affected by the global credit crisis. Following an initiative led the UAE Government and the Government of Dubai during 2009 and 2010 to assist the real estate finance sector in the UAE, DIB increased its shareholding in Tamweel from 20.8 per cent. to a controlling interest of 58.3 per cent., which is its current shareholding as at the date of this Prospectus, although see further below. A new board of directors of Tamweel was subsequently appointed during Tamweel's 2010 annual general assembly, which comprises four directors appointed by DIB and three other independent directors. All Tamweel shares not owned by DIB are held by the public.

As at 31 December 2012, Tamweel's authorised, issued and paid up share capital was AED 1.0 billion (U.S.$0.3 billion). As at 31 December 2012, Tamweel had total assets of AED 10.9 billion (U.S.$3.0 billion) compared to AED 10.0 billion (U.S.$2.7 billion) as of 31 December 2011 and AED 10.2 billion (U.S.$2.8 billion) as of 31 December 2010. As of 31 December 2012, Tamweel had total equity of AED 2.3 billion (U.S.$0.6 billion) compared to AED 2.3 billion (U.S.$0.6 billion) as of 31 December 2011 and AED 2.2 billion (U.S.$0.6 billion) as of 31 December 2010.

For the year ended 31 December 2012, Tamweel's net profit was AED 72.5 million (U.S.$19.7 million), compared to AED 102 million (U.S.$27.8 million) during the year ended 31 December 2011 and AED 26.0 million (U.S.$7.1 million) during the year ended 31 December 2010.

On 22 December 2011, Tamweel established a U.S.$1,000,000,000 Trust Certificate Issuance Programme (the "**Tamweel Sukuk Programme**"). Certain of Tamweel's payment obligations under the transaction documents relating to the Tamweel Sukuk Programme are to be guaranteed by DIB where the relevant certificates issued under the Tamweel Sukuk Programme specify that such guarantee from DIB is applicable. As at the date of this Prospectus, DIB has guaranteed the first (and currently only outstanding) series of Certificates issued under the Tamweel Sukuk Programme, which has an aggregate outstanding face amount of U.S.$300 million, see "*– Risk Management – Liquidity risk and funding management – Liquidity risk management process*".

In January 2013, DIB's Board of Directors approved a proposal to make the Tender Offer. The terms of the Tender Offer are set out in a tender offer document dated 14 February 2013. Under the Tender Offer, DIB is offering 10 New Shares for every 18 shares in Tamweel held by a Tamweel minority shareholder. Each New Share will be listed on the DFM. The Tender Offer was originally expressed to expire on 16 March 2013 but, following receipt of approval from the UAE Securities and Commodities Authority, DIB extended its expiration date (in accordance with the terms of the Tender Offer) to 30 March 2013. DIB has obtained all necessary regulatory approvals in order to make the Tender Offer, including approval from the UAE Government's Council of Ministers (with respect to the disapplication of certain pre-emption rights of the existing DIB shareholders to subscribe the New Shares that will be issued as a result of its capital increase), the DFM and the UAE Securities and Commodities Authority. The Tender Offer is conditional upon DIB obtaining the approval of an extraordinary general meeting of DIB's shareholders to the increase in DIB's share capital (from AED 3.80 billion to AED 4.03 billion) that will be required in order to issue the New Shares as contemplated by the Tender Offer. This approval was obtained at an extraordinary general meeting of DIB's shareholders held on 4 March 2013.

DIB Pakistan (Pakistan)

DIB Pakistan was incorporated as a wholly-owned subsidiary of DIB in 2006. It currently has over 100 branches in 16 cities. DIB Pakistan's team comprises experienced professionals with previous experience at leading banks (situated within and outside Pakistan). DIB Pakistan offers a full range of *Shari'a* compliant banking products in consumer banking, corporate and investment banking and wealth management. DIB Pakistan has an authorised share capital of U.S.$133.4 million and a paid up capital of U.S.$75.3 million as of 31 December 2012. As of 31 December 2012, DIB Pakistan's net assets were Pakistani Rupee 6,795.2 million (U.S.$70.1 million) compared to Pakistani Rupee 6,234.0 million (U.S.$69.3 million) as of 31 December 2011. For the year ended 31 December 2012, DIB Pakistan's profit before taxation was Pakistani Rupee 432.1 million (U.S.$4.5 million) compared to its profit before taxation of Pakistani Rupee 316.1 million (U.S.$3.5 million) for the year ended 31 December 2011 and Pakistani Rupee 17.7 million (U.S.$206.7 thousand) for the year ended 31 December 2010. For the purposes of this paragraph, Pakistani Rupees have been converted into U.S. dollars at a rate of (i) Pakistani Rupee 96.93 to U.S.$1.00, the rate prevailing on 31 December 2012 (in respect of financial information as at and for the year ended 31 December 2012); (ii) Pakistani Rupee 89.95 to U.S.$1.00, the rate prevailing on 31 December 2011 (in respect of financial information as at and for the year ended 31 December 2011); and (iii) Pakistani Rupee 85.64 to U.S.$1.00, the rate prevailing on 31 December 2010 (in respect of financial information as at and for the year ended 31 December 2010).

Deyaar Development (UAE)

Deyaar Development was incorporated as a wholly-owned subsidiary of DIB in 2002 and engages in real estate development and property management business in the UAE. DIB currently owns 45 per cent. of Deyaar Development. As of 31 December 2012, Deyaar's total assets were AED 6.6 billion (U.S.$1.8 billion) compared to AED 6.8 billion (U.S.$1.9 billion) as of 31 December 2011. For the year ended 31 December 2012, Deyaar Development's profit before taxation was AED 39.6 million (U.S.$10.8 million) compared to AED 41.4 million (U.S.$11.3 million) for the year ended 31 December 2011 and a loss before taxation of AED 2.9 billion (U.S.$0.8 billion) for the year ended 31 December 2010. As described above under "— *Overall Performance*", Deyaar Development restated its financial statements as at and for the year ended 31 December 2010 contained in its financial statements as at and for the year ended 31 December 2011 as a result of accounting for an increased impairment charge for goodwill as at 31 December 2010. Deyaar Development's authorised and paid up capital was U.S.$1.6 billion as of 31 December 2012.

Dar Al Sharia Legal & Financial Consultancy LLC (UAE)

Dar Al Sharia was incorporated as a subsidiary of DIB in 2008 and has expertise in all types of *Shari'a* advisory, certification, product structuring, restructuring and documentation, conversion of conventional financial institutions as well as providing a full range of products for new Islamic financial institutions and specialising in the structuring and documentation of Sukuk, Islamic syndications and Islamic funds to the market in general (see "— *Fatwa and Sharia Supervisory Board*" below). As at 31 December 2012, DIB owned 60 per cent. of the issued share capital of Dar Al Sharia.

Risk Management

Overview

Risk is inherent in DIB's activities but it is managed through a process of ongoing identification, measurement and monitoring, subjecting risk to limits and the implementation of other risk controls, as described below. This process of risk management is critical to DIB's continuing profitability and each individual within DIB is accountable for the risk exposures relating to his particular responsibilities.

DIB is exposed to a number of risks, including credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. DIB is also subject to operating risks.

DIB's independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through DIB's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks within DIB; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for DIB's overall risk management approach and for approving its risk strategies and principles.

Risk Management Committee

DIB's Risk Management Committee has overall responsibility for the development of its risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures within DIB in order to ensure that an independent control process is in place. The Risk Management Department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee

ALCO is responsible for managing DIB's assets and liabilities and its overall financial structure. It is also primarily responsible for the funding and liquidity risks of DIB.

Collection & Remedial Management Committee (the "CRMC")

The Collection & Remedial Committee is a management level of authority. The primary purpose of the CRMC is to take remedial decisions and monitor recovery activities within the discretionary authority delegated to it by the Executive Committee and the Board of Directors. In performing its role, the CRMC periodically reviews and provides constructive recommendations to the Executive Committee and/or the Board of Directors on the policies, guidelines and processes for remedial activities in DIB.

Management Credit Committee

The Management Credit Committee is a management level of authority responsible for taking credit decisions and monitoring credit activities within the discretionary authority delegated to it by the Board of Directors. In performing its role, the Management Credit Committee periodically reviews and provides constructive recommendations to the Board of Directors on DIB's credit policies, guidelines, processes and the future direction of credit/investment activities within DIB.

Risk measurement and reporting systems

DIB measures risks using conventional qualitative methods for credit, market and operational risks. Further, DIB also uses quantitative analysis and methods to support revisions in business and risk strategies when required. These analyses and methods reflect both the expected loss likely to arise in the normal course of business and unexpected losses resulting from unforeseen events, which are based on simple statistical techniques and probabilities derived from historical experience. DIB also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by DIB. These limits reflect the business strategy and market environment of DIB as well as the level of risk that it is willing to accept, with additional emphasis on the industries of selected borrowers. Information compiled from all of DIB's business units is examined and processed in order to analyse, control and identify risks at an early stage. This information is presented and explained to the Board of Directors, the Risk Management Committee and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity and other risk profile changes. Detailed reporting of industry, customer and geographic risks takes place on a monthly basis. DIB's senior management assesses the appropriateness of its provisions for impairment losses on a quarterly basis.

Risk mitigation

As part of its overall risk management process, DIB uses various methods to manage exposures resulting from changes in credit risks, profit rate risk, foreign currencies, equity risks and operational risks.

DIB seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. DIB actively uses collateral to reduce its credit risks. See "— *Credit Risk*" below for further details.

DIB's market risk is managed on the basis of predetermined asset allocation across various asset categories and a continuous appraisal of movements in market conditions. DIB also continuously monitors expected changes in foreign currency rates, benchmark profit rates and equity indices in order to mitigate market risk. See "— *Market Risk*" below for further details.

In order to mitigate against liquidity risk, DIB's management has access to diversified funding sources. DIB's assets are managed with its overall liquidity in mind as well as with a view to maintaining an appropriate balance of cash and cash equivalents in order to be able to meet its contractual liabilities at short notice. See "— *Liquidity Risk and Funding Management*" below for further details.

To manage all other risks, DIB has developed a detailed risk management framework intended to identify and apply resources effectively in order to mitigate against those risks occurring.

Risk concentration

Concentrations of risk arise within DIB when a number of its 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 DIB to be similarly affected by changes in economic, political or other conditions.

Concentrations indicate the relative sensitivity of DIB's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, DIB's policies and procedures include specific guidelines which require it to focus on maintaining a diversified portfolio of Islamic financing and investment assets. Where concentrations of credit risks are identified, DIB aims to control and manage these accordingly (as described further below).

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. DIB attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of its counterparties. In addition to monitoring credit limits, DIB manages credit exposure relating to its trading activities by entering into collateral arrangements with counterparties in appropriate circumstances and limiting the duration of its exposure to those counterparties. In certain cases, DIB may also close out transactions or assign them to other counterparties to mitigate credit risk.

As described above under "– *Risk Concentration*", concentrations of credit risk arise when a number of DIB's 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 DIB's performance to developments affecting a particular industry or geographic location.

Management of credit risk

DIB's credit risk management framework includes:

- establishment of an authorisation structure and limits for the approval and renewal of credit facilities;
- reviewing and assessing credit exposures in accordance with its authorisation structure and limits, prior to facilities being approved to customers. Renewals and reviews of facilities are subject to the same review process as occurs in respect of an application for a new facility;
- limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

DIB has established a credit quality review process to provide early identification of possible changes in the creditworthiness of its counterparties. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. DIB's risk ratings are subject to regular revision. The credit quality review process allows DIB to assess the potential loss as a result of the risks to which it is exposed.

Credit risk measurement

As described above, DIB assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of real estate projects have been developed internally, those relating to DIB's corporate, contracting and SME businesses have been acquired from Moody's and are housed within the Moody's Risk Analyst rating tool (which was implemented by DIB during 2009).

DIB's rating tools are kept under review and upgraded as necessary. DIB regularly validates the performance of the rating tools and their predictive power with regard to default events.

Collateral

DIB employs a range of policies and practices to mitigate credit risk. The most traditional and commonly used policy is to take collateral against the amount advanced. DIB has implemented guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal types of collateral obtained in respect of DIB's Islamic financing and investing assets are:

- mortgages over residential and commercial properties;
- corporate and financial guarantees;
- charges over business assets such as premises, machinery, inventory and accounts receivable; and
- charges over financial instruments such as financing securities and equities.

The amount and type of collateral required by DIB depends on its assessment of the particular counterparty's credit risk. DIB implements guidelines regarding the acceptability of particular types of collateral and the parameters put in place for valuing it.

Islamic derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in DIB's consolidated statement of financial position.

Credit-related commitments risks

DIB makes available to its customers guarantees and letters of credit which require it to make payments in the event that its customer fails to fulfil certain obligations it owes to other parties.

This exposes DIB to a similar credit risk to that faced by it in respect of its financing and investing assets, and these risks are mitigated by the same control processes and policies as described above.

Portfolio Concentrations

As described above, concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, in 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 DIB's performance to developments affecting a particular industry or geographic location. DIB's credit policies are structured to ensure that DIB is not over-exposed to a given client, industry or geographic area through diversification of financing and investment activities.

The following table shows the concentration of DIB's gross Islamic financing and investing assets by industry sector as at 31 December 2012, 31 December 2011 and 31 December 2010:

	31 December					
Portfolio Concentration	**2012**		**2011**		**2010**	
	(AED millions, except percentages)					
Gross Islamic Financing and Investing Assets – by Industry Sector:						
Financial institutions	1,350	2.3%	1,631	3.0%	3,429	5.7%
Real estate	17,646	29.8%	18,786	34.1%	17,479	29.1%
Trade	2,697	4.6%	1,827	3.3%	2,821	4.7%
Government	4,081	6.9%	2,665	4.8%	4,861	8.1%
Manufacturing and services	8,272	14.0%	5,735	10.4%	9,384	15.6%
Consumer home finance	12,827	21.6%	12,556	22.8%	12,578	20.9%
Consumer financing	12,387	20.8%	11,816	21.6%	9,576	15.9%
Total	**59,260**	**100%**	**55,016**	**100%**	**60,128**	**100%**

The following table shows the concentration of DIB's gross Islamic financing and investing assets by geographical area as at 31 December 2012, 31 December 2011 and 31 December 2010:

	31 December					
Portfolio Concentration	**2012**		**2011**		**2010**	
	(AED millions, except percentages)					
Gross Islamic Financing and Investing Assets – By geographical areas:						
Within UAE	57,078	96.3%	52,999	96.3%	58,004	96.5%
Outside UAE	2,182	3.7%	2,017	3.7%	2,124	3.5%
Total	**59,260**	**100%**	**55,016**	**100%**	**60,128**	**100%**

	Portfolio outstanding net of future profits	**Bilateral sukuk**	**Total**	**Non performing assets**	**Provisions held**	**Non performing/ portfolio outstanding net of future profits and bilateral sukuk**	**Provisions/ non performing**
			(AED millions)			*(%)*	
31 December 2012	59,260	3,673	62,933	8,090	3,699	12.9	45.7
31 December 2011	55,016	3,673	58,689	8,078	3,509	13.8	43.4
31 December 2010	60,128	—	60,128	7,346	2,957	12.2	40.3

Impairment assessment

The main considerations for DIB's impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or if there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract between DIB and the customer. DIB addresses impairment assessment in two principal areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

DIB determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Matters considered by DIB when determining impairment allowance amounts include:

- the sustainability of the counterparty's business plan;
- its ability to improve performance once a financial difficulty has arisen;
- projected receipts and the expected dividend payout should the counterparty become bankrupt;
- the availability of other financial support and the realisable value of collateral; and
- the timing of the expected cash flows under the Islamic financing or investing asset.

DIB's impairment losses are evaluated at each financial reporting date, unless unforeseen circumstances require more careful attention prior to the next financial reporting date.

Collectively assessed allowances

Allowances are assessed collectively for losses on DIB's Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat and unsecured retail financing assets) where there is no objective evidence of individual impairment. Collective allowances are evaluated on each financial reporting date with each portfolio of assets receiving a separate review.

DIB's collective assessment takes account of impairment that is likely to be present in each portfolio even though there is no objective evidence of the impairment on the basis of an individual assessment. Impairment losses are estimated by taking into consideration each of the following factors: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by the Risk Management Committee to ensure alignment with DIB's overall policy.

Provisions in relation to acceptances, letters of credit and guarantees are assessed and made by DIB in a similar manner as for its Islamic financing and investing assets.

In November 2010, the UAE Central Bank published a new set of rules making it mandatory for banks and financial institutions to make provisions for their impaired loans on a quarterly basis. The new guidelines prescribe specific provisions for three categories of impaired loans and stipulate that lenders should build up general provisions equal to 1.5 per cent. of risk weighted assets over a period of four years, up from the previous requirement of 1.25 per cent. DIB is building provisions and reserves for general provisions accordingly.

The following table sets out the movements in DIB's provision for impairment of its financing and investing assets for the years ended 31 December 2012, 31 December 2011 and 31 December 2010:

	2012	2011	2010
		(AED millions)	
Balance at the beginning of the year	3,509	2,535	1,948
Acquisition of controlling interest	—	—	364
Charge for the year	1,164	1,517	929
Release to profit or loss	(279)	(540)	(276)
Write-offs during the year	(691)	(2)	(8)
Other	(2)	(1)	—
Balance at the end of the year[1]	3,699	3,509	2,957
Gross amount of Islamic financing and investing assets, individually determined to be impaired	6,118	6,808	5,012

Note:

[1] Balance as at 31 December 2010 has been updated to AED 2,535 million as at 1 January 2011 as a result of the reclassifications made in the 2012 Financial Statements, as described further under "*Presentation of financial and other information*" set out above.

Liquidity risk and funding management

DIB maintains a portfolio of highly marketable and diverse assets that it believes can be liquidated easily in the event of an unforeseen interruption of its cash flows. DIB also has committed lines of credit that it can access to meet liquidity needs should the need arise. In addition, DIB maintains statutory deposits with certain central banks. DIB's liquidity position is assessed and managed under a variety of scenarios, which give due consideration to stress factors relating to both the market in general and those specific to DIB.

DIB believes that the high quality of its asset portfolio ensures its liquidity, which, coupled with its own funds and "evergreen" customer deposits, help form a stable funding source. DIB is confident that, even under adverse conditions, it will have access to the funds necessary to cover customer needs and meet its funding requirements.

DIB's primary tool for monitoring its liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines have been established by DIB for the cumulative negative cash flow over successive time periods.

The following tables show the maturity profile of DIB's assets, liabilities and equity as at 31 December 2012, 31 December 2011 and 31 December 2010:

As at 31 December 2012

	Less than one month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
			(AED thousands)			
Assets:						
Cash and balances with central banks	3,061,544	4,096,076	8,218,972	96,957	—	15,473,549
Due from banks and financial institutions	2,350,950	818,164	—	—	—	3,169,114
Islamic financing and investing assets, net	2,867,061	4,907,168	8,963,973	24,751,958	14,069,943	55,560,103
Investment in Islamic Sukuk	23,853	22,104	2,187,964	7,998,864	855,877	11,088,662
Other investments	—	—	613,061	1,531,810	—	2,144,871
Investments in associates	—	—	—	—	2,294,028	2,294,028
Properties held for sale	—	—	—	224,909	—	224,909
Investment properties	—	—	—	—	1,931,808	1,931,808
Receivables and other assets	134,622	53,556	1,930,662	800,086	1,372	2,920,298
Property, plant and equipment	7,414	15,491	82,872	118,533	333,047	557,357
Goodwill	—	—	—	—	—	—
Total assets	8,445,444	9,912,559	21,997,504	35,523,117	19,486,075	95,364,699
Liabilities:						
Customers' deposits	6,910,322	9,214,219	28,266,824	22,330,684	78,803	66,800,852
Due to banks and other financial institutions	586,651	173,229	3,249,659	2,148,750	—	6,158,289
Sukuk financing instruments	634,960	—	1,100,000	2,939,000	—	4,673,960
Medium term wakala finance	—	—	—	3,752,543	—	3,752,543
Other liabilities	1,239,873	1,129,317	392,053	493,683	702	3,255,628
Accrued zakat	—	—	163,572	—	—	163,572
Equity	—	—	569,558	(820,130)	10,810,427	10,559,855
Total liabilities and equity	**9,371,806**	**10,516,765**	**33,741,666**	**30,844,530**	**10,889,932**	**95,364,699**
Net maturities gap	**(926,362)**	**(604,206)**	**(11,744,162)**	**4,678,587**	**8,596,143**	**—**

As at 31 December 2011

	Less than one month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
			(AED thousands)			
Assets:						
Cash and balances with central banks	2,353,995	5,081,320	5,517,004	—	—	12,952,319
Due from banks and financial institutions	2,529,596	513,500	—	—	—	3,043,096
Islamic financing and investing assets	4,205,901	3,201,254	8,847,308	21,965,054	13,287,532	51,507,049
Investment in Islamic Sukuk	13	1,951	140,070	11,260,998	1,285,079	12,688,111
Other investments	—	—	586,761	1,447,628	—	2,034,389
Investments in associates	—	—	—	—	2,336,439	2,336,439
Properties held for sale	—	—	—	609,756	—	609,756
Investment properties	—	—	—	—	1,785,205	1,785,205
Receivables and other assets	791,417	88,028	1,287,912	847,489	35,844	3,050,690
Property, plant and equipment	9,595	18,642	82,157	142,375	328,641	581,410
Goodwill	—	—	—	—	—	—
Total assets	9,890,517	8,904,695	16,461,212	36,273,300	19,058,740	90,588,464
Liabilities:						
Customers' deposits	8,359,394	6,781,147	28,294,049	21,472,142	23,107	64,929,839
Due to banks and other financial institutions	451,096	125,275	1,327,135	2,148,927	—	4,052,433
Sukuk financing instruments	—	2,357,074	—	1,816,909	—	4,173,983
Medium term wakala finance	—	—	—	3,752,543	—	3,752,543
Other liabilities	1,424,634	173,891	811,599	968,486	6,223	3,384,833
Accrued zakat	—	—	121,076	—	—	121,076
Equity	—	—	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	**10,235,124**	**9,437,387**	**30,933,564**	**29,327,158**	**10,655,231**	**90,588,464**
Net maturities gap	**(344,607)**	**(532,692)**	**(14,472,352)**	**6,946,142**	**8,403,509**	**—**

As at 31 December 2010

	Less than one month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
			(AED thousands)			
Assets:						
Cash and balances with central banks	4,135,310	4,310,176	2,801,739	—	—	11,247,225
Due from banks and financial institutions	395,530	1,638,868	322,133	—	—	2,356,531
Islamic financing and investing assets	5,746,037	2,985,310	6,903,828	21,459,918	20,075,974	57,171,067
Investment in Islamic Sukuk	14	—	240,339	6,630,716	1,329,407	8,200,476
Other investments	—	—	706,995	1,065,951	—	1,772,946
Investments in associates	—	—	—	3,176,904	—	3,176,904
Properties under construction	—	—	—	524,165	—	524,165
Properties held for sale	—	—	135,368	409,591	—	544,959
Investment properties	—	—	—	1,922,911	—	1,922,911
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,843	2,296,873
Property, plant and equipment	9,887	19,227	85,100	199,462	339,410	653,086
Goodwill	—	—	—	17,258	—	17,258
Total assets	**10,347,290**	**9,034,525**	**13,288,738**	**35,463,214**	**21,750,634**	**89,884,401**
Liabilities:						
Customers' deposits	9,098,359	6,596,396	27,085,844	20,643,365	23,106	63,447,070
Due to banks and other financial institutions	183,309	435,594	1,747,226	2,043,298	—	4,409,427
Sukuk financing instruments	—	—	—	4,176,015	—	4,176,015
Medium term wakala finance	—	—	—	—	3,752,543	3,752,543
Other liabilities	1,434,465	266,427	1,531,586	447,445	—	3,679,923
Accrued zakat	—	—	146,336	—	—	146,336
Equity	—	—	379,705	(243,166)	10,136,548	10,273,087
Total liabilities and equity	**10,716,133**	**7,298,417**	**30,890,697**	**27,066,957**	**13,912,197**	**89,884,401**
Net maturities gap	**(368,843)**	**1,736,108**	**(17,601,959)**	**8,396,257**	**7,838,437**	**—**

Liquidity risk management process

DIB's liquidity risk management process, as carried out within DIB and monitored by a separate team in DIB's Treasury department, includes:

- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes the replenishment of funds as they mature or are financed by customers;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to DIB's cash flows;
- monitoring DIB's consolidated statement of financial position liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of the maturity dates of its investing and financing exposures.

The following table sets forth a number of liquidity ratios for DIB as at 31 December 2012, 31 December 2011 and 31 December 2010:

	31 December		
	2012	2011	2010
	%	%	%
Liquidity ratios:			
Liquid assets[(1)]/total assets	21.8	19.9	17.1
Customer deposits/total deposits[(2)]	91.6	94.1	93.5
Net financing and investment assets/ customer deposits	83.2	79.3	90.1
Net financing and investment assets/total assets	58.3	56.9	63.6

Notes:

(1) Liquid assets include cash and balances with Central Banks, due from banks and financial institutions and other investments.

(2) Total deposits include customers' deposits and due to banks and financial institutions.

The following table provides a breakdown of DIB's customer deposits as at 31 December 2012, 31 December 2011 and 31 December 2010:

	31 December		
	2012	2011	2010
		(AED millions)	
Customers' deposits:			
Current accounts	17,831.4	17,784.6	15,087.6
Saving accounts	11,271.3	10,848.6	10,047.0
Investment deposits	37,350.6	35,912.2	38,124.0
Margins (LC and guarantee margins)	169.0	192.8	188.1
Profit equalisation reserve and depositors' share of profit payable	178.5	191.6	0.4
Total	**66,800.8**	**64,929.8**	**63,447.1**

The following table provides a breakdown of DIB's contingencies and commitments as at 31 December 2012, 31 December 2011 and 31 December 2010:

	31 December		
	2012	2011	2010
		(AED millions)	
Contingent liabilities:			
Letters of guarantees	7,801	7,511	8,774
Letters of credit	1,962	2,082	2,536
Total	**9,763**	**9,593**	**11,310**
Commitments:			
Capital expenditure commitments	268	316	389
Irrevocable undrawn facilities and commitments	10,393	8,757	12,567
Total	**10,661**	**9,073**	**12,956**
Total	**20,424**	**18,666**	**24,266**

As noted above, DIB is guarantor of Tamweel's payment obligations with respect to certain transaction documents relating to certain series of Certificates issued under the Tamweel Sukuk Programme. On 18 January 2012, Tamweel issued U.S.$300 million trust certificates due 2017 through Tamweel Funding III Ltd. (a special purpose finance vehicle incorporated for this purpose). DIB guarantees Tamweel's payment obligations under the transaction document relating to such certificates in accordance with the terms of the deed of guarantee entered into by DIB under the Tamweel Sukuk Programme.

For a description of the maturity profile of DIB's derivative cash flows as at 31 December 2012, 31 December 2011 and 31 December 2011, please refer to Note 52.3.4 to the 2012 Financial Statements and Note 58.3.4 to the 2011 Financial Statements, set out elsewhere in this Prospectus.

In addition to customer deposits, DIB's other sources of funding over the last few years have been:

- ***Sukuk issuance***

  On 22 March 2007, DIB issued U.S.$750,000,000 Trust Certificates due 2012 (the "**2012 Sukuk**") through DIB Sukuk Company Limited (a special purpose finance vehicle incorporated for this purpose). The 2012 Sukuk paid a quarterly periodic distribution amount calculated on the basis of three-month LIBOR plus a margin. During 2010, DIB purchased an aggregate face amount of AED 58.0 million (U.S.$15.8 million) of the 2012 Sukuk at a discount, which included purchases made as part of a public cash tender offer. During 2009, DIB purchased an aggregate face amount of AED 340 million (U.S.$92.5 million) of the 2012 Sukuk at a discount. The aggregate outstanding face amount of the 2012 Sukuk were redeemed in full on 22 March 2012 in accordance with their terms.

  On 30 May 2012, DIB issued U.S.$500,000,000 Trust Certificates due 2017 (the "**2017 Sukuk**") through DIB Sukuk Limited (a special purpose finance vehicle incorporated for this purpose). The 2017 Sukuk pays a quarterly periodic distribution amount calculated on the basis of three-month LIBOR plus a margin and is due to be redeemed in May 2017.

- ***Medium term wakala finance***

  During 2008, DIB received AED 3.75 billion of *wakala* deposits (the "**Wakala Deposits**") from the UAE Ministry of Finance. During 2009, DIB elected to re-categorise the Wakala Deposits as Tier 2 qualifying finance, which was approved by DIB's shareholders at an extraordinary general meeting held in April 2009. The Wakala Deposits are used for investments with a tenor of seven years and will mature in December 2016. Profit on the Wakala Deposits is paid every three months.

In the event of a liquidity crisis, DIB has a large portfolio of rated *Sukuk* that could be leased for repo and has access to the Central Bank's measures intended to ensure that banks within the UAE have sufficient liquidity including, in particular, through access to the Central Bank's Islamic-compliant CD repo facility (see "*The United Arab Emirates Banking Sector and Regulations – Recent Trends in Banking – Liquidity*").

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

General Risk associated with the UAE Banking sector

Please see "*The United Arab Emirates Banking Sector and Regulations*" for an analysis of the general risks associated with the UAE Banking Sector.

Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on DIB's open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. DIB is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

DIB pays considerable attention to market risk. It uses appropriate models, in accordance with standard market practice, to value its positions and receives regular market information in order to regulate its market risk.

DIB's trading market risk framework comprises the following elements:

- limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management; and
- independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of DIB's market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with DIB's general market risk policy. DIB's Chief Risk Officer ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, DIB is required to comply with the guidelines and regulations of the Central Bank.

Profit margin risk

DIB is not significantly exposed to risk in terms of the repricing of its customer deposits since, in accordance with Islamic *Shari'a*, DIB 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 by which the depositors and investment account holders agree to share the profit or loss made by DIB's Mudaraba asset pool over a given period.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. DIB is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. DIB manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

DIB manages profit rate risk in its banking book using value at risk methodology and by stress testing parallel shifts of profit rate movements.

Foreign exchange risk

DIB has income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert this income into UAE dirham (see further Note 52.4.3 to the 2012 Financial Statements set out elsewhere in this Prospectus).

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the level of equity indices and the value of individual stocks. Non-trading equity price risk exposure arises from DIB's investment portfolio.

Operational Risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

DIB has developed a detailed operational risk framework which defines roles and responsibilities of individuals/units across different functions that are involved in performing various operational risk management tasks. DIB's operational risk management framework is intended to ensure that its operational risks are properly identified, monitored, managed and reported. Key elements of this framework include process mapping, setting up a loss data base, establishing key risk indicators ("**KRIs**"), risk analysis and risk management reporting.

DIB currently utilises ORMIS, an operational risk tracking system used to track operational risk events across its businesses. The system houses four years of operational loss data. The subject system is currently enhanced to automate KRIs and risk control self-assessment.

Each new product introduced by DIB is subject to a risk review and sign-off process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product.

Variations of existing products are also subject to a similar process. DIB's business and support units are responsible for managing operations risk in their respective functional areas. They operate within DIB's operational risk management framework and ensure that risk is managed within their respective business units. The day-to-day management of operational risk is carried-out through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key back-up procedures and business contingency planning.

Legal Risk

Overview

DIB has a full-time legal adviser who deals with both routine and more complex legal cases. Situations of a particular complexity and sensitivity are referred to external firms of lawyers, either in the UAE or overseas, as appropriate. DIB also seeks to mitigate legal risk through the use of properly reviewed standard documentation and appropriate legal advice in relation to its non-standard documentation.

Legal proceedings

In 2003, DIB was named as a defendant in eight civil lawsuits filed in various federal district courts in the United States that relate to the terrorist attacks on 11 September 2001. The plaintiffs in these lawsuits include victims of the terrorist attacks, the families or estates of deceased victims, the leaseholders of the World Trade Center properties, and certain insurance companies that suffered losses as a result of the attacks. In total, the lawsuits named over 520 defendants. The defendants included among other entities, organisations, Islamic charities, other major financial institutions in the Middle East (including National Commercial Bank, Al Rajhi Bank, Arab Bank plc and Samba), and individuals, including members of the royal family of Saudi Arabia. The complaints filed in these lawsuits made substantially identical allegations against DIB, including that DIB provided material support and assistance to Al Qaeda and that all defendants knew or should have known they were providing material support, aiding and abetting, and enabling the terrorists that perpetrated the attacks. The plaintiffs have not enumerated all of their alleged damages that they are seeking to recover in these cases.

In December 2003, the United States Judicial Panel on Multi-District Litigation consolidated the actions against DIB and the other defendants and transferred those actions to the Federal District Court in the Southern District of New York (the "**New York Federal Court**"). In May 2005, DIB filed a motion to dismiss all eight actions with the New York Federal Court. In June 2010, the New York Federal Court denied DIB's motion to dismiss due to the allegations by the plaintiffs that DIB intentionally and knowingly provided support to Al Qaeda.

In August 2010, DIB sought permission from the New York Federal Court to appeal the order denying DIB's motion to dismiss. DIB asserted that the New York Federal Court erred in finding that it had jurisdiction over DIB and that DIB could have caused the plaintiffs' injuries. The motion is fully briefed, and the New York Federal Court may decide it at any time. If it is granted, DIB will appeal the order to the U.S. Court of Appeals for the Second Circuit.

The plaintiffs in two of the civil law suits against DIB have abandoned their claims against DIB (one in August 2010 and the other in March 2011). Six civil law suits against DIB remain pending as of the date of this Prospectus. DIB is currently at the discovery phase of this litigation. During this phase, the parties have exchanged relevant documents (the documentary discovery process having been completed in late 2012) and will have the opportunity to take the testimony of relevant witnesses in depositions under oath. Subsequent to the completion of the documentary discovery process, the plaintiffs made a request to the New York Federal Court for certain additional documents from DIB. Counsel to DIB has objected to this late request and the New York Federal Court is currently reviewing those arguments. The parties have until May 2013 to seek the New York Federal Court's assistance in addressing any possible document production deficiencies. The New York Federal Court has not set a deadline for the completion of depositions, but DIB expects these depositions to take place during June or July 2013.

At the end of this discovery stage, DIB can seek its dismissal from all of the civil lawsuits by moving for summary judgment. To obtain such summary judgment, DIB must show that it is entitled to dismissal because the evidence uncovered during discovery would not permit a fact finder to hold DIB liable for damages.

DIB believes that it has meritorious defences to these claims, has defended itself, and intends to continue to defend itself, vigorously. No provision has been made as at 31 December 2012 in respect of any outstanding 11 September legal proceedings against DIB as professional advice indicates that it is unlikely that any significant or material costs or loss, other than legal costs in connection with the defence, is expected to be incurred, although U.S. litigation is by its nature uncertain and it is therefore not always possible to accurately predict any outcome in terms of withdrawals, dismissal or ultimate liability. See also "*Risk Factors — Risk Relating to DIB — 9/11 Litigation*".

Capital adequacy

DIB calculates its capital adequacy ratio in accordance with the capital adequacy guidelines issued by the Central Bank. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure. In accordance with these guidelines, DIB must maintain a minimum capital adequacy ratio of 12 per cent.

DIB's Tier I capital adequacy ratio was 13.9 per cent. at 31 December 2012. 13.6 per cent. at 31 December 2011 and 12.7 per cent. at 31 December 2010. DIB's total capital adequacy ratio was 17.4 per cent. at 31 December 2012, 18.2 per cent. at 31 December 2011 and 17.8 per cent. at 31 December 2010.

In accordance with Central Bank timelines, DIB has implemented the Basel II standardised approach in relation to credit risk, market risk and operational risk and steps are underway to move towards more advanced approaches in relation to risk-based capital management.

Also, in line with the Basel III Accord ("**Basel III**") requirements, the Central Bank is proposing a set of quantitative requirements which include the following:

- **Liquidity Coverage Ratio ("LCR")**

  The LCR represents a 30 days stress scenario with combined assumptions covering both bank-specific and market-wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30 days stress scenario; and

- **Uses to Stable Resources Ratio ("USSR")**

  The USSR represents the ratio of key uses of funds against funding sources used by banks post-assignment of stability factors to these sources. This is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets.

The qualitative requirements, as well as the USSR requirement, are expected to take effect in the coming months.

DIB has already commenced planning for the implementation of Basel III. In particular, DIB has already implemented the monitoring phase desired by the Central Bank (reflecting the LCR requirements described above).

Related parties

Certain related parties (principally major shareholders, associated companies, directors and senior management of DIB and companies of which they are principal owners) are customers of the Group in the ordinary course of business. The transactions with these parties were made on substantially the same terms, including profit and commission rates, as the case may be, and the requirements for collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve an amount of risk which was more than the amount of risk relating to such comparable transactions. No impairment allowances have been recognised against financing and investing assets extended to such related parties.

The tables below set out the amounts outstanding as at and for the years ended 31 December 2012, 31 December 2011 and 31 December 2010 in respect of transactions entered into by DIB with related parties:

	As at 31 December		
	2012	2011	2010
		(AED millions)	
Islamic financing and investing assets	1,961	1,037	2,484
Customer deposits	2,003	2,889	3,063
Contingent liabilities	15	1	1

	Year ended 31 December		
Income Statement Highlights	2012	2011	2010
		(AED millions)	
Income from Islamic financing and investing assets	70	64	72
Depositors' share of profits	57	108	108

Information Technology

DIB recognises the importance of information technology in assisting it in reaching its objectives of growth, expansion and competitive market positioning. There is strong alignment between DIB's business plans and its information technology plans.

DIB's existing technology set-up is based upon the IFLEX core banking solution system which is integrated with a number of specific customised banking systems. IFLEX is used with a view to ensuring availability and reliability of business services to customers as well as internally to staff, and also to allow DIB to utilise an enhanced Islamic financing system.

DIB is also committed to the introduction of specific technology management systems, including Treasury, Asset and Liability, and HR management systems which will help it meet growing competition and market pressures. DIB completed a significant upgrade of its infrastructure, after a detailed evaluation process, in 2007. DIB expects to upgrade further certain of its information technology infrastructure during the remainder of 2013, although this will take place in the ordinary course of business.

AML and CFT Policy and KYC

DIB has an active Anti-Money Laundering ("**AML**") and Counter-Financing of Terrorism ("**CFT**") compliance policy. DIB's AML and CFT policies are designed to:

- prevent money laundering and terrorist financing;
- meet the requirements of all applicable laws and regulations on AML/CFT; and
- comply with UN and other applicable sanctions regimes.

DIB has a compliance function in place, which is headed by a dedicated compliance officer who is responsible for co-ordinating and overseeing the effective implementation of DIB's compliance programme (including its AML and CFT policies). All AML and CFT policies and practices are applied across all of DIB's branches and certain of its subsidiaries within the UAE as well as outside the UAE (to the extent permitted by local laws and regulations). DIB's internal auditors review and assess its AML and CFT policies in accordance with their audit plan and practices in order to ensure that they are effective and adequate.

The AML function is managed by a team of certified AML specialists consisting of six dedicated staff at Head Office. Each of DIB's subsidiaries has dedicated compliance officers. DIB has separate AML and Know Your Client ("**KYC**") policies and procedures for all new customers and transaction monitoring based on amount thresholds, pre-determined scenarios and a blacklist database through the NorKom System, which was installed by DIB during 2008 as part of its continuous improvement programme.

DIB's policy for the acceptance of new customers takes into consideration their activity, related accounts, and any other relevant indicators. The policy includes adequate investigation of customers in accordance with their associated risk. The investigation is carried out according to the following general rules:

- verification of the customer's and actual beneficiary's identity, whether the customer is a natural or judicial person (for example, the customer's/actual beneficiary's full name, nationality, physical location, contact details (telephone), occupation, date of birth and passport or National ID number are all obtained);
- DIB only opens accounts with customers who engage in legitimate business activities;
- DIB obtains information concerning, and assesses the AML/CFT policies and practices of, the financial institutions it does business with;
- DIB assesses the normal and expected transaction behaviour of its customers based on its risk assessments of such customers; and
- DIB does not enter into a business relationship or execute any transactions before applying due diligence procedures stipulated in these instructions. DIB requires enhanced due diligence on relationships with sensitive sectors such as politically exposed persons, consistent with industry practice. In addition, where, based on its due diligence, DIB has any suspicion in respect of the accuracy or adequacy of the information obtained in relation to the customer's identity, it makes further enquiries and takes appropriate measures as necessary.

DIB only deals with customers who have an account with DIB and does not allow any payments from non-customers over the counter in cash. DIB monitors all transactions and reports suspicious transactions to the Central Bank. DIB has implemented the automated NorKom System to filter swift transactions against international blacklists. DIB screens all customer names and payment details against applicable sanctions and blacklists, including those derived from, or published by, the Central Bank, the United Nations, the United States' Office of Foreign Assets Control ("**OFAC**") and the EU.

DIB's client acceptance/on boarding for correspondent banking services with other financial institutions complies with the Wolfsberg Principles for Correspondent Banks in relation to anti-money laundering and corruption.

DIB provides ongoing training to employees in relation to a broad range of compliance issues. In particular, DIB has a compliance training programme whereby training is conducted on all applicable laws and regulations as well as changes to its AML and/or CFT policies. This training includes identification and reporting of suspicious transactions. DIB has both classroom-based training as well as e-learning programmes that cover its KYC policy and AML and CFT methods. DIB retains records of its training sessions including attendance records and relevant training materials used.

Internal Audit

Risk management processes throughout DIB are audited periodically by its internal audit function which examines both the adequacy of its risk management procedures and DIB's compliance with them. Members of the Internal Audit department discuss the results of their assessments with DIB's management, and report their findings and recommendations to the Audit Committee.

Business Continuity Planning and Disaster Recovery

DIB has established infrastructure and processes designed to ensure that a robust and secure business, technical and operational contingency plan is in place. This plan is based on the following elements:

The first level of protection ensures that all key technical systems at DIB's head office have on-site back-up systems.

In the event that DIB's head office back-up systems (described above) also fail, DIB's second level of Business Continuity Planning ("**BCP**") and Disaster Recovery ("**DR**") principally comprises two off-site DR sites (located in each of Sharjah and Al Ain), which are strategically located away from its head office (which is in line with ISO 9000/8 and ISO Tec 27001 standards) and ensure further safety and security. DIB's BCP and DR infrastructure is also in compliance with the Global Good Practice Guidelines circulated by the UK's Business Continuity Institute.

All critical processes and system contingencies have been established in accordance with global best practice and incorporate business impact analysis and risk impact analysis intended to minimise any negative effects in the case of an unprecedented scenario. These processes and system contingencies include:

- business processes;
- document continuity;
- emergency management;
- facilities management; and
- human resource planning.

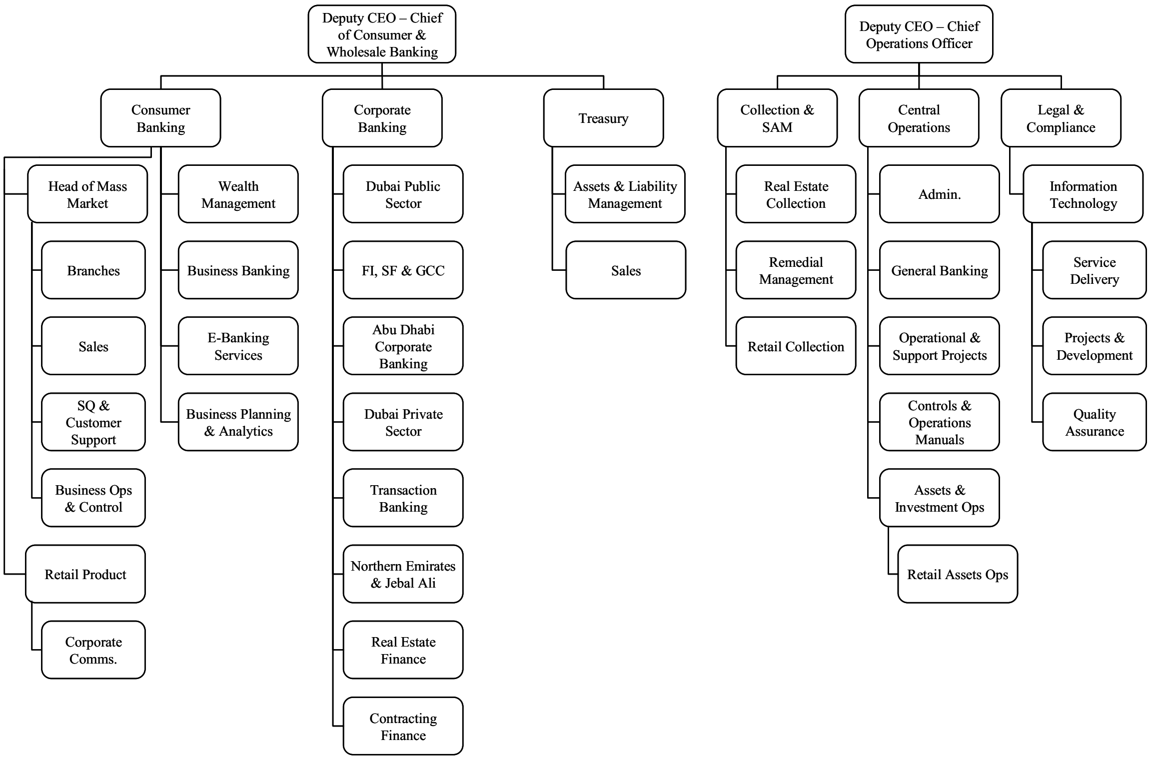
Accordingly, DIB believes that all critical systems and processes within DIB are protected by its BCP and DR strategy and planning exercise (which includes both local and international linked systems and processes as well as regulatory requirements). DIB refines its BCP and DR strategy on an ongoing basis. In order to ensure that they are up to date and effective, DIB regularly conducts BCP tests and exercises along with regular DR drills to make certain that it has a sustained and robust BCP and DR environment.

Tax

DIB is not subject to tax in Dubai or the United Arab Emirates, whether corporate or otherwise. DIB may be subject to tax in other jurisdictions in which it operates.

Management and Employees

The following chart summarises the principal features of the organisational structure within DIB:



Board of Directors

The members of the Board of Directors are elected by shareholders at a general meeting. DIB requires the majority of its members to be UAE nationals. Each member is appointed for a three-year term at the end of which the Board is re-instituted (which is next due to take place in 2014). The Board of Directors has the necessary power to manage DIB and act on its behalf.

The following table sets out the names of the current members of DIB's Board of Directors:

Name	Position
H.E. Mohammed Ibrahim Al Shaibani	Chairman
Dr. Tarik Humaid Al Tayer	Deputy Chairman
Mr. Khalid Ahmed Khalifa Al Suwaidi	Director
Mr. Abdulla Ali Al Hamli	Director
Mr. Ahmed Mohammed Said Bin Humaidan	Director
Mr. Yahya Saeed Ahmad Lootah	Director
Mr. Hamad Bin Abdulla Al Shamsi	Director
Mr. Abdullah Al Sayed Mohammed Al Hashimi	Director
Mr. Abdul Aziz Ahmed Al Muhairi	Director

The address of each member of the Board of Directors is P.O. Box 1080, Dubai, UAE. There are no conflicts of interest between the private interests or other duties of the Directors listed above and their duties to DIB. Each member of DIB's Board of Directors is an independent and non-executive director of DIB.

Detailed below is brief biographical information on the members of DIB's Board of Directors.

H.E. Mohammed Ibrahim Al Shaibani

H.E. Al Shaibani is the Chairman of DIB, and is also a member of DIB's Board of Directors.

H.E. Al Shaibani also serves as Director General of H.H. The Ruler's Court, Government of Dubai and the Chief Executive Officer and Executive Director of the Investment Corporation of Dubai. He is also Chairman of the National Bonds Corporation and a Board Member of Emaar Properties, Shuaa Capital, Dubai Aerospace Enterprise Limited, The Knowledge Fund and International Humanitarian City. Since 1998, H.E. Al Shaibani has also held the position of President at the Dubai Office, a private management office for the Royal Family of Dubai.

H.E. Al Shaibani holds a degree in Computer Science.

Dr. Tarik Humaid Al Tayer

Dr. Al Tayer serves as Deputy Chairman of DIB, and is also a member of DIB's Board of Directors.

Dr. Al Tayer also serves as Director of the Al Tayer group of companies, Vice Chairman of the Sheikh Zayed Housing Programme, Director of ART Consultants and Chairman of the UAE Professional Football League.

Dr. Al Tayer holds a degree in Civil and Environmental Engineering from the University of Colorado, Denver, a Master's degree in Civil Engineering/Construction Engineering Management from the University of Colorado, Boulder, USA and a PhD in Civil Engineering from the University of Arizona, Tucson, USA.

Mr. Khalid Ahmed Khalifa Al Suwaidi

Mr. Al Suwaidi serves as a member of DIB's Board of Directors.

Mr. Al Suwaidi also serves as Chairman and Chief Executive Officer of Amjad Holding Group, and has previously served as a member of the Board of Directors of Abu Dhabi Islamic Bank and Abu Dhabi National Islamic Insurance Company.

Mr. Al Suwaidi holds a degree in Political Science from Al Ain University, UAE.

Mr. Abdulla Ali Al Hamli

Mr. Al Hamli has served as Chief Executive Officer of DIB since 2008, and is also a member of DIB's Board of Directors. Mr Al Hamli joined DIB in 1999. Before assuming the role of Chief Executive Officer, he served as DIB's Chief Information Officer where he oversaw the upgrade of its IT infrastructure. Mr Al Hamli is currently Chairman of Tamweel following his appointment to this position in November 2010.

Mr. Al Hamli also serves as Chairman of the property developer, Deyaar Development.

He holds a degree in Economics and Mathematics from Al Ain University, UAE.

Mr. Ahmed Mohammed Said Bin Humaidan

Mr. Bin Humaidan serves as a member of DIB's Board of Directors.

Mr. Bin Humaidan has over 22 years' experience in strategic thinking, strategic planning, projects management, leading improvements programmes and change management and also serves as Deputy Director General of H.H. The Ruler's Court, Government of Dubai. He has also previously served as the Director of Projects for The Executive Office of His Highness Sheikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of UAE and Ruler of Dubai.

Mr. Bin Humaidan holds a degree in Electrical Engineering from UAE University as well as a Business Administration diploma from Sheffield Hallam University, United Kingdom.

Mr. Yahya Saeed Ahmad Lootah

Mr. Lootah serves as a member of DIB's Board of Directors. In addition, Mr. Lootah serves as Executive Director of the S.S. Lootah Group and is a member of the board of directors of the Dubai Chamber of Commerce and Industry, as well as a member of the Board of Trustees of Dubai Medical College and the Advisory Board of the Faculty of Engineering at the American University in Dubai.

Mr. Lootah holds a degree in Civil Architectural Engineering as well as a Master's degree in Science in Engineering from the University of Bridgeport, USA.

Mr. Hamad Bin Abdulla Al Shamsi

Mr. Al Shamsi serves as a member of DIB's Board of Directors.

Mr. Al Shamsi also currently serves as the Chief Executive Officer of International Capital Trading Company, Chairman of the Board of Directors of Essdar Capital, and a member of the Board of Directors of the Abu Dhabi Stock Exchange, Finance House, Etihad Airways and Royal Jet.

Mr. Al Shamsi holds a degree in Business Administration from Al Ain University, UAE and has a Master's degree in Finance and Banking.

Mr. Abdullah Al Sayed Mohammed Al Hashimi

Mr. Al Hashimi serves as a member of DIB's Board of Directors. Mr. Al Hashimi also serves as a member of the Board of Directors of the UAE Society of Engineers, the Dubai Chamber of Commerce Committee of Arbitration, AWQAF Minor Affairs Foundation and the GCC Commercial Arbitration Centre, as well as serving as the Head of the Planning Department of the Dubai Municipality. He is also Director and owner of Al Hashimi.

Mr. Al Hashimi holds a degree in Architecture from the Fine Arts University, Egypt.

Mr. Abdul Aziz Ahmed Al Muhairi

Mr. Al Muhairi serves as a member of DIB's Board of Directors. Mr. Al Muhairi also serves as a member of the Board of Directors of Bourse Dubai, Vice Chairman of the Support Fund and Chairman of the Supervisory Board of Bosnia Bank International. He has previously served as the Managing Director of the Investment Corporation of Dubai and as a member of the Board of Directors and Chief Executive Officer for Dubai Bank.

Mr. Al Muhairi holds a Science degree, specialising in Accounting and Finance, from the American College of Switzerland.

Key Senior Management

The following table sets out the names of the current senior management of DIB:

Name	Position
Mr. Abdulla Ali Al Hamli	Chief Executive Officer
Dr. Adnan Chilwan	Deputy CEO – Chief of Consumer & Wholesale Banking
Mr. Mohamed Abdulla Al Nahdi........	Deputy CEO – Chief Operation Officer
Mr. Naveed Ali	Chief of Corporate Banking
Mr. Mohammed Saleem	Chief of Treasury
Mr. Abbas Bhujwala	Chief Risk Officer
Mr. Rajbhushan Buddhiraju	Chief of Consumer Banking
Mr. Salman Liaquat.............................	Acting Head of Finance

The address of each member of the senior management of DIB is P.O. Box 1080, Dubai, UAE. There are no conflicts of interest between the private interests or other duties of the senior management of DIB listed above and their duties to DIB.

Detailed below is brief biographical information on the senior management of DIB.

Mr. Abdulla Ali Al Hamli

Please see biographical information provided above for Mr. Al Hamli.

Dr. Adnan Chilwan

Dr. Chilwan has served as Deputy CEO – Chief of Consumer & Wholesale Banking of DIB since 2008. He has over 16 years' worth of banking experience with both conventional and Islamic banks in the Gulf region such as DIB, Dubai Bank (UAE), Commercial Bank of Qatar (Qatar), Mashreqbank (UAE), Abu Dhabi Islamic Bank (UAE) and HSBC (UAE).

Dr. Chilwan represents DIB on the boards of various strategic investments, subsidiaries and associates. He is currently Chairman, Islamic Financial Services (the brokerage arm of DIB); Board Member, DIB Capital (investment bank of DIB); Board Member, Deyaar Development; Board Member, Liquidity Management Centre (Investment Centre in Bahrain); Board Member, Dar Al Shari'a and a Board Member of Millennium Private Equity. He is also a member of the DIB's Investment Committee, the DIB ALCO, Management Credit Committee, Automation Committee and Executive Committee.

Dr. Chilwan has a PhD and an MBA in Marketing. He is a Certified Islamic Banker (CeIB), a Post Graduate in Islamic Banking & Insurance and an Associate Fellow Member in Islamic Finance Professionals Board.

Mr. Mohamed Abdulla Al Nahdi

Mr. Al Nahdi has served as Deputy CEO – Chief Operation Officer of DIB since July 2008, overseeing the critical support functions of DIB.

Mr. Al Nahdi has over 26 years' worth of leadership experience gained in the banking sector. Before joining DIB, Mr. Al Nahdi was Chief Retail Banking Officer at Dubai Bank. He began his career with HSBC, holding various positions within the personal banking, corporate banking, branches, trade finance, operations and remittances departments of that bank.

Mr. Al Nahdi also serves as a board member of each of DIB Capital, Tamweel and Deyaar Development. He holds a degree in Accountancy and Administration from Baghdad University, Iraq.

Mr. Naveed Ali

Mr. Ali has served as Chief of Corporate Banking at DIB since June 2003.

Mr. Ali has over 24 years' worth of banking experience with both conventional and Islamic banks. Before joining DIB, Mr. Ali was Vice President of the Commercial Banking Group at MashreqBank (UAE). He began his career with Habib Credit & Exchange Bank (Pakistan).

Mr. Ali holds a degree in Science from the University of Karachi, Pakistan.

Mr. Mohammed Saleem

Mr. Saleem has served as Chief of Treasury at DIB since July 2006.

Mr. Saleem has over 28 years' worth of banking experience with both conventional and Islamic banks, including Standard Chartered Bank (Pakistan and UAE), Société Générale (Bangladesh and Pakistan) and Union National Bank (UAE). Before joining DIB, Mr. Saleem was Treasurer at Standard Chartered Bank (Pakistan).

Mr. Saleem holds a degree in Commerce.

Mr. Abbas Bhujwala

Mr. Bhujwala has served as the Chief Risk Officer of DIB since June 2010. Before that he headed DIB's Credit Approval team and was responsible for corporate and institutional credit. Mr. Bhujwala has over 30 years' worth of banking experience. Before joining DIB, Mr. Bhujwala worked at Faysal Bank and Standard Chartered Bank in the Middle East region, holding various senior positions in both institutions, including head of business and risk management at Faysal Bank and Standard Chartered Bank (Dubai). Mr. Bhujwala holds a degree in management from the University of Karachi, Pakistan.

Mr. Rajbhushan Buddhiraju

Mr. Buddhiraju has served as Chief Consumer Banking Officer of DIB since September 2012, overseeing the Retail and SME business.

Mr Buddhiraju has 23 years of banking experience including Citigroup (India, Singapore, Hungary and Poland), Arab National Bank (Kingdom of Saudi Arabia) and Commercial Bank (Qatar). He has held several leadership positions managing Retail Banking, Wealth Management and Brokerage operations in different countries and regions, including the Middle East.

Mr. Buddhiraju is a petroleum engineer and holds an MBA in Marketing and Finance from the Indian Institute of Management, Calcutta.

Mr. Salman Liaquat

Before joining DIB in 2003, Mr. Salman worked with Standard Chartered Bank in their Regional Office for Middle East and South Asia based in the UAE and Standard Chartered Pakistan, holding senior positions including Head of Finance for Pakistan. Mr. Salman has served as Acting Head of Finance at DIB since September 2012. Mr. Salman has over 25 years' worth of banking experience with both conventional and Islamic banks. Mr. Salman holds a Bachelor's degree in commerce, is a qualified Chartered Accountant and Fellow Member of Institute of Chartered Accountants of Pakistan.

Executive Committee (ExCo)

The members of ExCo comprise the Chief Executive Officer, both Deputy CEOs, the Chief Risk Officer, the Senior Executive Vice President of Business Services, the Chief Financial Officer, the Chief Executive Officer of DIB Capital and the Chief of Human Resources.

ExCo's key responsibilities include setting the strategic direction of DIB and reviewing DIB's performance in line with defined strategic objectives.

Fatwa and Sharia Supervisory Board

The Sharia Board comprises scholars of high repute with extensive experience in law, economics and banking systems. The Sharia Board is appointed by DIB's shareholders at a general meeting and its responsibilities include supervising the development and creation of innovative *Shari'a* compliant products, issuing fatwas on any matter proposed to it by business units of DIB, ensuring (through *Shari'a* auditors) that transactions are carried out in compliance with Islamic principles and analysing contracts and agreements concerning DIB's transactions. DIB's full Sharia Board is supported by the Sharia Executive Committee (comprised of the Chairman of the Sharia Board and one other member of the Sharia Board) which has been mandated to provide *Shari'a* approval for a number of DIB's products and investments on behalf of the full Sharia Board. DIB's Sharia Executive Committee meets on a weekly basis in order to be able to provide timely advice and approvals.

The Sharia Board works closely with Dar Al Sharia. Dar Al Sharia is responsible for reviewing and approving DIB's new products (including their structure, process and documentation) for *Shari'a* compliance in the first instance and seeks guidance from the *Sharia* Board. Dar Al Sharia is comprised of a number of bankers, lawyers and *Shari'a* scholars with expertise in *Shari'a* finance and was incorporated by DIB in 2008.

The Sharia Board submits an annual report to the General Assembly of DIB's shareholders and the Board of Directors summarising all the issues which have been referred to it, as well as its opinion on DIB's transactional procedures. The Sharia Board's annual report is included in DIB's annual audited financial statements.

The following table sets out the names of the current Sharia Board:

Name	Position
Professor Dr. Hussain Hamid Hassan	Chairman
Sheikh Mohammed Abdul Razak Al Sedeiq	Member
Dr. Mohamed Zoeir	Secretary General
Dr. Muhammad Qaseem	Member
Dr. Muhammad Abdulrahim Sultan Al-Ulama	Member
Dr. Youssif Abdullah Saleh Al Shebaily	Member

Detailed below is brief biographical information on the members of the F&SB.

Professor Dr. Hussain Hamid Hassan

Dr. Hussain completed his PhD in the Faculty of Sharia from Al Azhar University, Egypt, Master's degree in Comparative Jurisprudence from University of New York, USA and graduated in Law and Economics from University of Cairo, Egypt.

Dr. Hussain is a prominent scholar and teacher, having established Islamic universities and Islamic faculties in various parts of the world including Makkah, Islamabad, Kazakhstan and Libya.

For over 50 years, he has been adviser to the Presidents and leaders of various Islamic Republics, including acting as an adviser to Presidents of the Islamic Republic of Pakistan and to the Prime Minister of the Republic of Kyrgyzstan. He is also the President of the United States Muslim Jurists Association.

Besides DIB, Dr. Hussain is the Chairman of the Sharia Supervisory Boards of several Islamic financial Institutions including Tamweel, Emirates Islamic Bank, Sharjah Islamic Bank, Ajman Bank, Amlak Finance, Deutsche Bank, National Bonds Corporation, Liquidity Management Centre, AMAN Takaful Company, Jordan Dubai Islamic Bank and others, besides being a member of the Sharia Board of Islamic Development Bank, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the IFSB, the Fiqh Academy of Muslim World League and the International Fiqh Academy of the Organisation of Islamic Cooperation.

Dr. Hussain is the author of 21 books and over 400 articles on Islamic Fiqh, jurisprudence, Islamic banking and insurance, and frequently presides over Islamic academic and financial conferences, seminars and workshops in different parts of the world. He has supervised the translation of the Holy Quran into Russian and the translation of 200 Islamic banks into various languages.

Sheikh Mohammed Abdul Razak Al Sedeiq

Sheikh Mohammed Abdul Razak Al Sedeiq has been a member of the Sharia Board since 1999. He holds a Master in Comparative Fiqh, a Diploma in Fiqh principles, a Master's Degree in Fiqh, a Master Diploma from the Faculty of Sharia and Law and is registered to commence a PhD in comparative Fiqh.

Dr. Mohamed Zoeir

Dr. Zoeir holds a Ph.D. in Islamic Economic and is a member of the Shari'a boards of many Islamic Banks across the Middle East and Africa. He is the author of a number research papers and studies in the field of Islamic finance and banking.

Dr Zoeir is also Chief Editor of Islamic Economics magazine.

Dr. Muhammad Qaseem

Dr. Qaseem holds a Ph.D. (Islamic Studies) from the Faculty of Usul ud Dinis, University of Karachi. He is country head of Shari'a of DIBPL and has been a member of the Shari'a Boards of member of many other institutions. Dr. Qaseem has taught various courses in a number of B.A. and M.A. programmes of International Islamic University, Islamabad.

Dr. Muhammad Qaseem has made many academic contributions, articles and literary and translation work.

Dr. Muhammad Abdulrahim Sultan Al-Ulama

Dr. Al-Ulama holds a Ph.D. in Islamic jurisprudence, is an assistant professor at various universities and a member of numerous academic committees. He has published a number of articles and reports, in addition to his contribution to seminars and conferences in Islamic finance arena held around the world.

Dr. Youssif Abdullah Saleh Al Shebaily

Dr. Al Shebaily holds a Ph.D. in comparative Fiqh and is a professor in Saudi Arabia. He has contributed and presented numerous courses and training sessions to judges in Saudi Arabia. Dr. Al Shebaily has worked in Islamic Institution in Washington, served as a member of the Shari'a Board many other institutions and has more than 17 published reports and research papers.

Employee ownership

DIB established an Employee Stock Ownership Plan in 2004 under which DIB shares may be granted to eligible employees. The employee benefit plan is designed to recognise and retain key employees.

For eligible employees, DIB shares are granted on condition that the employee continues in the employ of DIB for an agreed minimum period ranging between two to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares granted revert back to DIB. The senior management and functional heads are eligible to receive shares of DIB, and there is a provision in the Employee Stock Ownership Plan to award shares of DIB to potentially high performers at any level.

Employees

As of 31 December 2012, DIB had 1,744 employees compared to 1,667 employees as of 31 December 2011 and 1,619 employees as of 31 December 2010. As of 31 December 2012, DIB had an Emiratisation level of 46.6 per cent. compared to 46.1 per cent. as of 31 December 2011 and 45.9 per cent. as of 31 December 2010. DIB had a staff turnover of 12.9 per cent. for the period between 31 December 2012 and 31 December 2011 and 14.1 per cent. for the period between 31 December 2011 and 31 December 2010.

OVERVIEW OF THE UNITED ARAB EMIRATES

The UAE is a federation of seven Emirates. The federation was established on 2 December 1971. On formation, the federation comprised the following Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al- Qaiwain and Fujairah. Ras Al Khaimah joined in February 1972. The president of the UAE is Sheikh Khalifa bin Zayed Al Nahyan who is also the Ruler of Abu Dhabi. The Ruler of Dubai is Sheikh Mohammed bin Rashid AI Maktoum who is the Vice President and Prime Minister of the UAE.

The federation is governed by the Supreme Council of the Rulers of the seven Emirates (the "**Supreme Council**"). The Supreme Council elects from its own membership the President and the Vice President (for renewable five year terms). Decisions relating to substantive matters are decided by a majority vote of five Emirates (provided that the votes of both Dubai and Abu Dhabi are included in that majority), but matters that are purely procedural are decided by a simple majority vote.

Based on IMF data for 2011 (extracted from the World Economic Database (October 2012)), the UAE is the third largest economy in the MENA region after Saudi Arabia and Iran. The UAE economy has generally grown over the last two decades, faltering only in 1998 and 2001, due to lower oil prices and the Organisation of the Petroleum Exporting Countries ("**OPEC**") mandated production cuts, and in 2009 as a result of a significant oil price decline, the effects of the global financial crisis and the ending of the property bubble in both Dubai and Abu Dhabi. Although the UAE has a more diversified economy than most of the other countries in the GCC region, its wealth is still largely based on oil and gas. According to data gathered by OPEC, at 31 December 2011, the UAE had approximately 6.6 per cent. of the world's proven oil reserves (giving it the sixth largest oil reserves in the world). Fluctuations in energy prices do have a bearing on economic growth, but the UAE is viewed as being in a less vulnerable position than some of its GCC neighbours, due to the increasing size of its non-oil sector. The governments of Abu Dhabi and Dubai, which contribute around 80 per cent. of the UAE's GDP, are spending substantial amounts on expanding infrastructure.

Based on IMF data for 2011 (extracted from the World Economic Database (October 2012)), real GDP growth in the UAE increased by 5.2 per cent. in 2011. Based on the same source, real GDP in the UAE grew by 1.3 per cent. in 2010, fell by 4.8 per cent. in 2009 and grew by 5.3 per cent. in 2008 and 6.5 per cent. in 2007.

On 8 August 2012, Moody's reaffirmed the UAE's long-term credit rating of Aa2 with a stable outlook. The principal reason stated for this high investment grade rating is the assumption that the obligations of the federal government will be fully supported by Abu Dhabi. The UAE is not rated by any other rating agency.

The UAE population was estimated to have reached almost 8.3 million people in mid-2010 according to data released on 31 March 2011 by the UAE National Statistics Bureau.

The UAE enjoys good relations with the other states in the GCC and its regional neighbours. The UAE does have, however, a long-standing territorial dispute with Iran over three islands in the Gulf and, as such, is not immune to the political risks and volatility that have over-shadowed the region, particularly in the last couple of years. The economy remains heavily protected and nearly all utilities and most major industries are controlled by the state. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, foreigners are not permitted to have a controlling interest in UAE businesses and corporates. Reflecting this rule, many of the Emirates have established trade and industry free zones as a means of attracting overseas investment and diversifying the economy. Despite the UAE's membership in the WTO, progress towards economic liberalisation has been slow, although trade agreements with Europe and the United States are being negotiated.

THE UNITED ARAB EMIRATES BANKING SECTOR AND REGULATIONS

Summary

Within the UAE as a whole, the financial sector was estimated to have contributed approximately 7.0 per cent. of real GDP in 2011, according to preliminary estimates published by the National Bureau of Statistics.

While UAE banks continue to be profitable, they have been affected by the liquidity issues that have been experienced by banks globally since the second half of 2008. According to the Central Bank, the aggregate loans and advances extended to residents and non-residents of the UAE at 30 November 2012 were AED 1,107 billion, compared to AED 1,071 billion at 31 December 2011 and AED 1,031 billion at 31 December 2010.

The table below provides a statistical analysis of the UAE banking sector as at 31 December in each of 2010 and 2011 and (save where indicated) 30 November 2012.

	2010	**2011**	**2012**[(1)]
Total number of banks	51	51	51
Total number of branches[(2)]	815	851	886
Total number of employees[(3)]	37,403	37,499	—
Total credit facilities[(4)] *(AED billion)*	1,031	1,071	1,107
Total deposits *(AED billion)*	1,050	1,070	1,183
Total assets[(4)] *(AED billion)*	1,606	1,662	1,796

Notes:

(1) As at 30 November

(2) Excluding pay offices and electronic banking service units

(3) Excluding auxiliary staff. This figure is not currently available as at 30 November 2012. As at 30 September 2012 the total number of employees (excluding auxiliary staff) was 35,668

(4) Net of provisions and interest in suspense

(5) Data for 2011 and 2012 is estimated and subject to revision

Source: Central Bank

Supervision of Banks

Supervision of Banks

Banking and financial institutions established or operating in the UAE are subject to supervision and regulation by the competent federal authorities, principally the Central Bank and the Securities and Commodities Authority (the "**SCA**"), as well as the competent local authority in the Emirate in which they are established or operate. The Central Bank was established under Union Law No. (10) of 1980 Concerning the Central Bank, the Monetary System and Organization of Banking (the "**Union Law**"), and the SCA was established by UAE Federal Law No. 4 of 2000.

While the responsibility for regulating and exercising oversight of banks and financial institutions in the UAE has historically rested primarily with the Central Bank, the UAE has begun to transition towards a "twin peaks" regulatory model, with the Central Bank and SCA discharging different responsibilities. Under this model, the Central Bank will continue to be responsible for monetary policy, macro-economic stability, systemic risk management and the licensing of local banks and branches of foreign banks operating in the UAE. In particular, the Central Bank will remain the principal authority responsible for setting and supervising bank capital adequacy requirements. The Central Bank will also retain oversight for overseeing anti-money laundering and anti-terrorism compliance by banks and financial institutions, which is currently handled through its Anti-Money Laundering and Suspicious Cases Unit which has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy, and a National Anti-Terror Committee (the "**NATC**"), which serves as a UAE inter-agency liaison.

The Central Bank does not act as a lender of last resort, a role which tends to fall on the individual Emirates.

The SCA, whose role has historically been limited to being the UAE's federal securities regulator, is expected to become increasingly active in more commercial and consumer-oriented areas previously regulated by the Central Bank, including exercising oversight over financial markets and consumer protection in financial services generally, including banking services and the establishment and marketing of investment products in the UAE. The SCA also has responsibility for oversight of certain day-to-day corporate law matters affecting public joint stock companies (including DIB) incorporated in the UAE, such as the conduct of general assembly meetings and the passing of shareholder resolutions.

Monitoring by the Central Bank is undertaken by way of regular inspections of banks and their records and the requirement for regular submission to the Central Bank of data, including, but not limited to, funds on deposit, loans and mortgages, liquidity status and anti-money laundering measures. DIB submits monthly, quarterly and annual reports to the Banking Supervision and Examination Department of the Central Bank. In addition, DIB's Memorandum and Articles of Association and any amendments thereto, its audited financial statements, its distribution of dividends and certain other documents are all submitted for approval by the Central Bank.

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the Central Bank to issue government debt. However, the Central Bank does issue certificates of deposit ("**CDs**") to the banks, denominated in both U.S. dollars and UAE dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. There is presently no active secondary market in these securities, but they can be redeemed at face value at the Central Bank at any time. In 2007, the Central Bank introduced an auction system and allowed U.S. dollar drawings against AED-denominated CD holdings.

Structure of the Banking System

Banking institutions in the UAE fall into a number of categories, as defined by the Union Law. Domestic commercial banks, also known as local banks, of which there were 23 as at 30 November 2012, are required to be public shareholding companies with a minimum share capital of AED 40 million.

Licensed foreign commercial banks, of which there were 28 as at 30 November 2012, need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The Union Law also licenses financial institutions (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities but are not permitted to accept funds in the form of deposits), investment banks (institutions which may not accept deposits with maturities of less than two years but which may borrow from their head office or other banks and the financial markets) and financial and monetary intermediaries (money and stock brokers).

Characteristics of the Banking System

Limited Progress towards Consolidation

The UAE may be seen as being over-banked with 51 different banks (comprising 23 locally incorporated banks and 28 foreign banks) licensed to operate inside the UAE (excluding the DIFC) (source: the Central Bank), serving a population estimated to be in the region of approximately 8.3 million people in mid-2010 (according to the National Bureau of Statistics). Traditionally there has been little impetus for consolidation. However, mergers in the past have tended to come as a result of banks facing financial difficulties and some commentators suggest that the recent financial crisis has created more favourable conditions for consolidation. The federal structure of the country has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in October 2007, the UAE's second and fourth largest banks, Emirates Bank International PJSC and National Bank of Dubai PJSC merged.

In addition, in May 2011, Dubai Bank PJSC was taken over by the Government of Dubai. The objective of this was to ensure the preservation of all of Dubai Bank's depositors' interests and the takeover was designed to ensure that Dubai Bank's business continued uninterrupted while options for the bank's future, whether to be run on a standalone basis or to be potentially merged with another Government of Dubai-owned bank, were assessed. In December 2012, Emirates Islamic Bank ("**EIB**"), a subsidiary of ENBD, completed its acquisition of Dubai Bank, and Dubai Bank is now a fully-owned subsidiary of EIB.

The relatively small size of most UAE banks has sometimes hindered them from competing for large financing deals in the region. It also means that they have comparatively small franchises with which to absorb capital costs, such as information technology system development. The advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, possibly even creating banks with pan-Gulf franchises.

Domestic Focus

The UAE incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross-border business. With a large number of players competing for a limited number of wholesale lending opportunities, most banks have turned to retail banking, a previously untapped market. However, increasing competition in this area is gradually eroding margins and encouraging a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and Internet banking services. As a consequence, IT and premises costs have been a prominent feature of many banks' expenses in addition to employee costs.

Limited Foreign Ownership

In 1987, the Federal Government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the Central Bank following an agreement to allow market access to banks of GCC state origin in line with continuing efforts in regional integration. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market and this has seen new entities entering the market place.

Exposure to the Oil Sector

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

Islamic Banking

Shari'a law forbids the charging of interest on any financial transaction. A number of banks, including DIB, have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include DIB, Abu Dhabi Islamic Bank, EIB, Noor Islamic Bank, Al Hilal Bank, Sharjah Islamic Bank, Ajman Bank, Dubai Islamic Insurance and Reinsurance Company (AMAN), Islamic Arab Insurance Co. (P.S.C.) (Salama), Tamweel and Amlak Finance. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks. In addition, conventional financial institutions often offer *Shari'a*-compliant products.

Legal Environment

There are three primary sources of law in the UAE: federal laws and decrees, local laws and *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government will apply his or its own rules, regulations and practices.

Lack of Developed Capital Markets

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the Abu Dhabi Securities Exchange (both of which were established in 2000), have grown rapidly over recent years, such growth has been affected by the recent global financial crisis.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The NASDAQ Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In May 2011, the DFM acquired two thirds of the shares in NASDAQ Dubai, in accordance with plans announced in December 2009 to consolidate markets. The two markets linked their platforms in July 2010, through the outsourcing by NASDAQ Dubai of its trading, clearing, settlement and custody functions for equities to DFM's systems. Responsibility for maintaining the NASDAQ Dubai's Official List of securities was transferred to the Dubai Financial Services Authority with effect from 1 October 2011.

Government Involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to happen in practice. The state is also the banking sector's largest customer, in terms of both deposits and project financing.

Expatriate Workforce

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 80 per cent. of the workforce. The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the country has been an increasing concern for the federal Government and, as part of a policy of Emiratisation, banks were instructed, in 1999, to increase UAE nationals on their payroll to 40 per cent. by 2009. Generally, banks have been moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

Accounting Standards

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January 2008 and aspects of Basel III are in the process of being implemented in the UAE.

Recent Trends in Banking

Liquidity

The Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have adequate systems and controls to manage their liquidity positions, as well as contingency plans to cope with periods of liquidity stress. Banks must also adhere to a maximum loan to deposit ratio of 100 per cent. set by the Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on demand or time based customer deposits made by private individuals or private sector companies. Together, these deposits constituted approximately 64 per cent. of total deposits of the UAE banking sector as at 31 August 2012, excluding interbank deposits and foreign liabilities but including commercial payments. Government deposits contributed approximately 21 per cent. of total deposits as at 31 August 2012.

There is currently no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number of banks were restructured by the authorities and, in May 2011, Dubai Bank was taken over by the Government of Dubai. In October 2008, in response to the global financial crisis, the UAE federal government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Thereafter, in May 2009, the Council approved a draft law guaranteeing federal deposits, although the law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. There can be no assurance that any draft law will subsequently be passed. As such, until such time as the law is passed, there is no guaranteed governmental support of deposits with banks.

In response to the global financial crisis, the Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the Central Bank established an AED 50.0 billion liquidity facility which banks can draw upon subject to posting eligible debt securities or *Shari'a*-compliant securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The Central Bank also established a CD repo facility (which also includes an Islamic-compliant version) under which banks can use CDs as collateral for dirham or U.S. dollar funding from the Central Bank.

In addition to these measures, the UAE federal Government also provided AED 50.0 billion in deposits to UAE banks (as part of a larger AED 70.0 billion package) which, at the option of the banks, can be converted into Tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE (including DIB) have converted the UAE federal Government deposits made with them into Tier 2 capital.

During 2008, Abu Dhabi government-owned institutions assisted certain Abu Dhabi banks in strengthening their capital base through the subscription of mandatory convertible securities and, in February 2009, the Abu Dhabi Government (acting through the Department of Finance) subscribed, in aggregate, a sum of AED 16.0 billion in subordinated Tier I Capital Notes issued by the five largest Abu Dhabi banks: National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank, Union National Bank and Abu Dhabi Islamic Bank.

A press statement issued by the Department of Finance of the Government of Dubai on 25 February 2009 announced that it had established a U.S.$20.0 billion funding programme and that the first tranche, valued at U.S.$10.0 billion with a five year tenure and paying a coupon rate of 4 per cent. per annum, had been issued in its entirety to the Central Bank. In November 2009, the Department of Finance of the Government of Dubai announced that a second U.S.$5.0 billion tranche was fully subscribed equally by National Bank of Abu Dhabi and Al Hilal Bank.

The Central Bank issued guidelines on the implementation of the Basel III Framework (as defined below) entitled "Liquidity Regulations at Banks" in July 2012 to increase regulations on how banks in the UAE manage liquidity through the introduction of new qualitative, quantitative and reporting requirements on liquidity risk management with the objective of ensuring that their liquidity risk is well managed in the UAE and is in line with Basel Committee recommendations and international best practices. On 16 December 2012, the Central Bank issued a press release in which it announced that it would postpone the 1 January 2013 implementation date of a number of provisions set out in such guidelines in order to allow further consideration of the requirements of these guidelines. As at the date of this Prospectus, no further guidance has been published by the Central Bank on implementation dates.

The qualitative requirements include clear articulation of liquidity risk tolerance for the relevant bank; at least one board member with a detailed understanding of liquidity risk management; incorporation of liquidity costs, benefits and risks into the product pricing and approval process; establishment of a forward-looking funding strategy to ensure effective diversification in the sources and tenor of funding; maintenance of high quality liquid assets; and development of transfer pricing framework to reflect the actual cost of funding.

The quantitative requirements include the following:

- Liquidity Assets Ratio ("**LAR**"): The LAR is designed to ensure that banks hold at least 10 per cent. of their liabilities in high quality liquid assets. Once implemented, the LAR is expected to remain in force for a period of time after which the Liquidity Coverage Ratio is expected to become effective;

- Liquidity Coverage Ratio ("**LCR**"): The LCR is taken from the Basel III Framework. It represents a 30 day stress scenario with combined assumptions covering both bank specific and market wide stresses that the bank should be able to survive using a stock of high quality assets. The LCR requires that banks should always be able to cover their net cash outflow with eligible liquid assets for a 30 day period;

- Uses (of funds) to Stable Resources Ratio ("**USSR**"): The USSR is an amended version of the current "Advances to Stable Resources Ratio" and represents the ratio of key uses of funds against funding sources used by banks after assignment of stability factors to these sources. This is a structural ratio that aims to prepare banks for the implementation of the Net Stable Funding Ratio (as defined below), and will ensure that banks have adequate stable funding to fund the assets on their balance sheets. After applying the relevant factors, the net uses of funds is divided by net sources of funds and the result should be less than 100 per cent.; and

- Net Stable Funding Ratio ("**NSFR**"): The NSFR is a structural ratio that aims to ensure that long-term assets on bank's balance sheets are funded using a sufficient amount of stable liabilities. It also requires an amount of stable liabilities to cover a portion of the contingent liabilities.

Capital Adequacy

All banks are required to follow the framework of the Basel Committee on Banking Supervision (the "**BCBS**") in calculating their capital adequacy ratios, as implemented by the Central Bank.

Basel Framework

The Basel II Accord ("**Basel II**") is an international capital adequacy framework, originally issued by the BCBS in June 2004, with the objective of strengthening the soundness and stability of the international banking system and providing a baseline of capital adequacy regulation among international banks. Basel II comprises risk-based guidelines on capital adequacy requirements and regulatory standards and are a progression of the original 1988 Basel I Global Capital Adequacy Rules for Banks and Financial Institutions. Basel II is based on three "pillars": minimum capital requirements, supervisory review process and market discipline.

- *Pillar I*

  The minimum capital requirements pillar was based on market, credit and operational risk and was designed to reduce the risk of failure by providing sufficient regulatory capital to enable continued access to financial markets for meeting the banks' liquidity needs as well as providing incentives for prudent risk management through allowing some discretion on the part of banks to utilise their own risk assessment as part of the minimum capital calculations.

- *Pillar II*

  The supervisory review pillar provided national regulators with increased tools to monitor internal bank risk control and capital assessment, and in certain instances, oblige banks to increase their regulatory capital beyond the minimum requirements under Pillar I.

- *Pillar III*

  The market discipline pillar implemented new and improved disclosure requirements with respect to capital adequacy in order to improve the effectiveness of the other two pillars.

Basel II requires banks to maintain a minimum capital adequacy ratio of 8 per cent. calculated as the percentage of total eligible regulatory capital to total risk-weighted assets for credit risks, operational and market risks. In July 2009, BCBS revised the Basel II Accord with respect to trading book capital and market risk framework, informally known as "Basel 2.5" in response to the initial dislocations caused by the financial crisis originating in the internal valuation and classification of re-securitisations such as collateralised debt obligations of asset-backed securities. Basel 2.5 obliged banks to implement more risk and stress-sensitive methodologies in the internal models utilised for calculating trading book and counterparty risk.

The Basel Committee has approved significant changes to Basel II, known as the Basel III Framework which was published by BCBS in December 2010 and January 2011, including new capital and liquidity standards for credit institutions, in response to the global financial crisis (the "**Basel III Framework**"). The Basel III Framework does not replace Basel II, rather, it implements a series of modifications to the existing regulatory structure.

The Basel III Framework increases the quantity and quality of the regulatory capital banks are required to hold. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit and market exposures arising from certain assets and transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity. The most significant features of the reforms introduced by the Basel III Framework are as follows:

- *Capital base*

  Between 2013 and 2019, the common equity component of capital (known as Core Tier 1) will increase from 2 per cent. of a bank's risk-weighted assets before certain regulatory deductions to 4.5 per cent. after such deductions. In addition, a new capital conservation buffer will be introduced, as well as a zero to 2.5 per cent. countercyclical capital buffer. As a result, the overall capital requirement (Tier I and Tier II) will increase from 8 per cent. at the Basel II baseline to 10.5 per cent. by 2019 with full Basel III Framework implementation.

- *Common equity*

  Common equity will continue to form the basis of Tier I capital, but other hybrid capital instruments permitted under Basel II will be replaced with instruments that are more loss absorbing and do not have incentives to redeem. Non-qualifying instruments issued on or after 12 September 2010 will be derecognised in full from 1 January 2013; certain other instruments issued prior to 12 September 2010 which qualified as Tier 1 capital under Basel

II but do not so qualify under Basel III, consisting of, among other instruments, perpetual non-cumulative preference shares, will be gradually derecognised at a rate of 10 per cent. per year from 2013 to 2023.

- *Capital charges*

  Increased capital charges will be introduced with respect to re-securitisation exposures and certain liquidity commitments held in the banking book will require more capital. With respect to a banks' trading books, more robust risk assessment methodologies will be utilised to value assets and increased counterparty and market risk charges will be assessed for exposure to other financial institutions and securitised assets.

- *Leverage ratio*

  A minimum 3 per cent. leverage ratio, measured against a bank's gross (and not risk-weighted) balance sheet, will be adopted on a trial basis until 2018 and definitively adopted in 2019.

- *Liquidity standards:*

  A "liquidity coverage ratio" requiring high quality liquid assets to equal or exceed certain cash outflows is expected to be adopted from 2015, thereby ensuring that a bank has sufficient high quality liquid assets to survive a one-month period of market stress. In addition, a "net stable funding ratio" requiring "available" stable funding sources to equal or exceed "required" stable funding will be adopted from 2018, thereby ensuring that a bank has access to capital or high quality funding to survive a one-year period of market stress.

The Central Bank issued guidelines on the implementation of the Basel III Framework in July 2012 under the heading "Liquidity Regulations at Banks" (see "– *Liquidity*" for further details). Since then, the Central Bank has been preparing local institutions for the implementation of the Basel III standards.

UAE

Since 1993, the Central Bank has imposed a 10 per cent. minimum total capital ratio. In a circular dated 30 August 2009, the Central Bank announced amendments to its capital adequacy requirements stating that UAE banks were required to have total capital adequacy ratios of at least 11 per cent., with a Tier 1 ratio of not less than 7 per cent., by 30 September 2009 and at least 12 per cent., with a Tier 1 ratio of not less than 8 per cent., by 30 June 2010. The circular stated that the new requirements, which were effective on 31 August 2009, apply to national and foreign banks. As at the date of this Prospectus, no further developments have been announced. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions are deducted from regulatory capital.

Whilst the calculation of capital adequacy ratios in the UAE follows the BCBS guidelines, claims on or guaranteed by GCC central governments and central banks are risk-weighted at zero per cent.; claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.; and GCC sovereign debt is risk-weighted at zero per cent.

All UAE banks were required to implement the standardised approach for credit risk proposed under the Basel II Accord by 31 December 2007 and were required to be internal risk-based compliant for credit risk by 1 January 2011.

Under the Union Law, banks are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the Central Bank.

Reserve Requirements

Reserve requirements are used by the Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances.

Large Exposures

They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries. The Central Bank defines large exposures as any funded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding prescribed limits. In relation to private sector entities, the Central Bank has set a large exposures funded limit of 10 per cent. of bank capital. In relation to government-related commercial entities, the Central Bank has set a single holding funded limit of 15 per cent. of bank capital. The Central Bank has not specified a single holding limit for banks in relation to UAE government departments, although in April 2012, a limit of 25 per cent. of bank capital was put in place for exposures to local governments within the UAE and their non-commercial entities. Exposures above these limits are subject to Central Bank approval.

Banks are required to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

In addition, the following the Central Bank lending limits also require that:

- no commercial bank can hold shares or bonds issued by commercial companies in excess of 25 per cent. of the bank's own funds; and
- no bank is permitted to grant loans or advances for the purpose of funding commercial or residential real estate construction in an amount exceeding 20 per cent. of its total deposits, unless it has prior authorisation from the Central Bank as an institution specialising in this type of business.

In February 2011, the Central Bank issued new regulations in relation to the retail banking sector, aimed at controlling lending activities and excessive charges by banks, whilst also protecting banks by regulating lending and encouraging banks to carry out proper due diligence on potential borrowers. In addition, new regulations governing personal loans and financing advances was brought into effect on 1 May 2011. These regulations cap personal loans and financing advances at 20 times a borrower's monthly salary and stipulate repayment of such personal financing within 48 months.

In December 2012, the Central Bank published a circular limiting the maximum amount of loan to property value ratios in the case of mortgage loans to individuals to:

- 70 per cent. (for nationals for their first house);
- 60 per cent. (for nationals for subsequent houses);
- 50 per cent. (for non-nationals for their first house); and
- 40 per cent. (for non-nationals for subsequent houses). No guidance has yet been issued as to the date from which these limits will become effective.

There is currently uncertainty as to the status of this circular as the Central Bank has indicated that it will not be enforced pending further consultation.

Provisions for Loan Losses

Since 2009, a number of UAE banks have announced exposures to well known GCC-based companies which have become insolvent or have been or are being restructured. These include the Saad and Algosaibi groups of the Kingdom of Saudi Arabia and Tabreed and the Dubai World Group in the UAE. As a result of declining economic conditions since late 2008 and the increasing number of insolvencies and restructurings, the amount of non-performing loans in the UAE banking system has increased steadily, with the Central Bank, in its September 2012 Financial Stability Review, estimating non-performing loans of approximately AED 50 billion at 31 December 2009, approximately AED 65 billion at 31 December 2010 and approximately 82 billion at 31 December 2011. According to the Financial Stability Review, the total specific provisions and interest in suspense of banks in the UAE amounted to approximately AED 55 billion at 31 December 2011, giving rise to a specific provision coverage ratio at that date of approximately 67 per cent.

The Central Bank stipulates that non-performing credits should be classified as either substandard, doubtful or loss depending on the likelihood of recovery, with provisions charged at a minimum of 25 per cent., 50 per cent. and 100 per cent., respectively for retail accounts between 90 and 180 days past due and for corporate accounts after the exercising of mature judgement. Any loans with either interest or principal in arrears by more than 90 days must be placed on a non-accrual basis and classified as non-performing. In practice, several banks operate more stringent policies and place loans on a non-accrual basis as soon as their recovery is in doubt.

In November 2010, the Central Bank published a new set of rules making it mandatory for banks and financial institutions to make provisions for their impaired loans on a quarterly basis (banks had previously written-off non-performing/impaired loans from their books after all legal options for recovery have been exhausted). The new guidelines also prescribe specific provisions for three categories of impaired loans and stipulate that lenders should build up general provisions equal to 1.5 per cent. of customer credit risk-weighted assets over a period of four years through to December 2014 and are intended to improve transparency within the banking industry in accordance with Basel Committee standards.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans carried on the balance sheets of UAE banks when compared to banks operating in other economies.

Federal Debt Management

In December 2010, the Council approved a draft federal law on public debt (the "**Public Debt Law**") under which the total value of UAE's public debt should not be more than 25 per cent. of its GDP or AED 200 billion, whichever is lower at the time of issuing public debt. The Public Debt Law is awaiting the approval of the President of the UAE and is therefore yet to be enacted. The Public Debt Law could therefore change before it is enacted.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions).

Declaration of Trust

The Declaration of Trust will be entered into on 20 March 2013 between DIB, the Issuer, the Trustee and the Delegate and will be governed by English law.

Pursuant to the Declaration of Trust, the Trustee will declare a trust for the benefit of the Certificateholders over the Trust Assets.

The Trust Assets comprise (i) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the assets from time to time constituting the Mudaraba Assets; (ii) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than in relation to any representations given by DIB (acting in any capacity) pursuant to any of the Transaction Documents); and (iii) all monies standing to the credit of the Transaction Account from time to time, and all proceeds of the foregoing.

The Declaration of Trust shall provide that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available therefor from the Trust Assets, subject to the priority of payments set out in the Declaration of Trust. After enforcing or realising the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with the Declaration of Trust, the obligations of the Issuer and the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Issuer or the Trustee (or any steps against the Delegate) or any other person to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the Trust Assets on trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the provisions of the Declaration of Trust and the Conditions; and

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust and the Conditions.

In the Declaration of Trust, the Trustee shall by way of security for the performance of all covenants, obligations and duties of the Trustee under the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its delegate and attorney and in its name, on its behalf and as its act and deed, to execute, deliver and perfect all documents, and to exercise all of those present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust and to be delegated to the Delegate (including but not limited to the authority to request instructions from any Certificateholders and the power to sub-delegate and to make any determinations to be made under the Declaration of Trust). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and, subject to certain provisions of the Declaration of Trust, does not affect the Trustee's continuing role and obligations as trustee.

Pursuant to the Declaration of Trust:

(a) upon the occurrence of a DIB Event and the delivery of a Dissolution Notice by the Delegate to the Trustee, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 11.1 (*Dissolution Events*), the Trustee (or the Delegate) may at its discretion and the Delegate shall if so requested in writing by Certificateholders holding at least one fifth of the then aggregate face amount of the

Certificates outstanding (subject in either case to being indemnified and/or secured and/or pre-funded to its satisfaction) (i) institute steps, actions or proceedings for the winding-up of DIB and/or (ii) prove in the winding-up of DIB and/or (iii) institute steps, actions or proceedings for the bankruptcy of DIB; and/or (iv) claim in the liquidation of DIB (in each case for all amounts due to the Trustee under the Mudaraba Agreement and the terms of the other Transaction Documents) and/or (v) take such other steps, actions or proceedings which, under the laws of the United Arab Emirates, has an analogous effect to the actions referred to in (i) to (iv) above;

(b) the Trustee (or the Delegate) may at its discretion and the Delegate shall upon being directed to do so by Certificateholders holding at least one fifth of the then aggregate face amount of the Certificates outstanding (subject, in either case, to being indemnified and/or secured and/or pre-funded to its satisfaction) institute such steps, actions or proceedings against DIB and the Trustee, as it may think fit to enforce any term or condition binding on DIB or the Trustee (as the case may be) under the Transaction Documents (other than any payment obligation of DIB under or arising from the Transaction Documents, including, without limitation, payment of any principal or premium or satisfaction of any payments in respect of the Transaction Documents, including any damages awarded for breach of any obligations) and in no event shall DIB, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

A Transaction Account will be established in the name of the Trustee. Monies received in the Transaction Account will, *inter alia*, comprise payments of amounts payable under the Mudaraba Agreement immediately prior to each Periodic Distribution Date (see "— *Mudaraba Agreement*" below). The Declaration of Trust shall provide that all monies credited to the Transaction Account from time to time will be applied in the order of priority set out in the Declaration of Trust.

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between DIB (as the Mudareb) and the Issuer (as Rab-al-Maal and Trustee) and will be governed by the laws of the Emirate of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE.

The Mudaraba will commence on the date of payment of the Mudaraba Capital and will end on the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions (the "**Mudaraba End Date**"). Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Issuer (as Rab-al-Maal), which shall as a result form the Mudaraba Capital.

The Mudaraba Capital shall be invested, on an unrestricted co-mingling basis, by DIB (as Mudareb) in its general business activities carried out through the General Mudaraba Pool in accordance with the investment plan prepared by the Mudareb and scheduled to the Mudaraba Agreement (the "**Investment Plan**"). The Mudareb will acknowledge and agree that the Investment Plan was prepared by it with due skill, care and attention, and acknowledge that the Trustee has entered into the Mudaraba in reliance on the Investment Plan. The General Mudaraba Pool does not include any other investment pool maintained by DIB.

The Mudareb is expressly authorised to co-mingle the Mudaraba Capital in its general business activities carried out through the General Mudaraba Pool, provided that prior to the calculation of any Mudaraba Profit or Final Mudaraba Profit the Mudareb shall deduct a proportion of any profit earned for its own account.

The Mudaraba Agreement provides that the profit (if any) generated by the Mudaraba will be distributed by the Mudareb on each Mudaraba Profit Distribution Date on the basis of a constructive liquidation of the Mudaraba by the Mudareb in accordance with the following profit sharing ratio:

(a) the Trustee 99 per cent.; and

(b) the Mudareb 1 per cent.

If the Mudareb elects to make a payment of Mudaraba Profit or Final Mudaraba Profit is otherwise payable pursuant to the Mudaraba Agreement, and the Trustee's share of the Mudaraba Profit (the "**Rab-al-Maal Mudaraba Profit**") or the Trustee's share of the Final Mudaraba Profit (the "**Rab-al-Maal Final Mudaraba Profit**") (as applicable) payable to the Trustee is greater than the corresponding Periodic Distribution Amount, the amount of any excess shall be retained by the Mudareb and credited to a reserve account (the "**Mudaraba Reserve**") and the proposed payment to the Trustee will be reduced accordingly. The Mudareb shall be entitled to deduct amounts standing to the credit of the Mudaraba Reserve (at its sole discretion) at any time prior to the Mudaraba End Date provided that such amounts shall be repaid by it if so required to fund a shortfall.

If the Mudareb makes a Non-Payment Election or a Non-Payment Event occurs, then the Mudareb shall give notice to the Trustee, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event. The Trustee shall have no claim in respect of any Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit not paid as a result of either a Non-Payment Event or (in the case of any Rab-al-Maal Mudaraba Profit only) a Non-Payment Election and such non-payment in such circumstance will not constitute a Dissolution Event. From the date of a Non-Payment Election (in the case of any Rab-al-Maal Mudaraba Profit only) or Non-Payment Event, the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, paying profit or other distributions on certain of its securities, or redeeming, purchasing, cancelling, reducing or otherwise acquiring certain of its share capital and securities, in each case unless or until two consecutive payments of Rab-al-Maal Mudaraba Profit (or the consecutive payment of Rab-al-Maal Mudaraba Profit and the payment of the Final Rab-al-Maal Mudaraba Profit) are made in full to the Trustee following such Non-Payment Election or Non-Payment Event.

Subject to certain conditions as set out in the Mudaraba Agreement, DIB (as Mudareb) may (in its sole discretion) liquidate the Mudaraba in whole, but not in part, on the basis of a final constructive liquidation of the Mudaraba in the following circumstances:

(a) on the First Call Date or any Periodic Distribution Date thereafter by giving not less than 30 nor more than 60 days' prior notice to the Trustee; or

(b) on any date, on or after the Issue Date (whether or not a Periodic Distribution Date), by giving not less than 30 nor more than 60 days' prior notice to the Trustee:

    (i) upon the occurrence of a Tax Event; or

    (ii) upon the occurrence of a Capital Event.

If the Mudareb exercises its option to liquidate in accordance with paragraph (a) or (b)(i) above and the capital to be returned to the Trustee (the "**Dissolution Mudaraba Capital**") is less than the Mudaraba Capital, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

If the Mudareb exercises its option to liquidate in accordance with paragraph (b)(ii) above and the Dissolution Mudaraba Capital is less than the Mudaraba Capital plus the Capital Event Profit Amount, the Mudareb shall either continue investing the Dissolution Mudaraba Capital in the Mudaraba, and accordingly no distribution of the liquidation proceeds shall occur, or shall indemnify the Trustee in respect of such shortfall and shall pay an amount equal to the aggregate of the Dissolution Mudaraba Capital, the Capital Event Profit Amount and such shortfall to the Trustee in which case there shall be a final constructive liquidation of the Mudaraba.

Under the terms of the Mudaraba Agreement, the Mudaraba will automatically be liquidated in whole but not in part if at any time an order is made, or an effective resolution is passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of the Mudareb and/or if a Dissolution Event occurs and a Dissolution Notice is delivered pursuant to Condition 11.1 (*Dissolution Events*). The Mudareb acknowledges under the Mudaraba Agreement that the Trustee shall in such case be entitled to claim for all amounts due in accordance with the terms of the Mudaraba Agreement in such winding-up, bankruptcy, dissolution or liquidation (or analogous event) subject to certain conditions including whether DIB is Solvent at such time.

DIB (as Mudareb) and the Trustee undertake in the Mudaraba Agreement, in circumstances where the Certificates are required by DIB to be varied upon the occurrence of a Tax Event or a Capital Event pursuant to the Conditions, to make such variations to the Mudaraba Agreement as are necessary to ensure that the Certificates become or, as appropriate, remain Qualifying Tier 1 Instruments.

The Mudareb shall not be responsible for any losses to the Mudaraba Capital suffered by the Trustee unless such losses are caused by (i) the Mudareb's breach of the Mudaraba Agreement or (ii) the Mudareb's gross negligence, wilful misconduct or fraud.

The Mudareb shall exercise its rights, powers and discretions under the Mudaraba Agreement and shall take such action as it deems appropriate in accordance with material applicable laws, with the degree of skill and care that it would exercise in respect of its own assets and in a manner that is not repugnant to *Shari'a*.

Other than its share of profit from the Mudaraba and any incentive fee payable in accordance with the Mudaraba Agreement, the Mudareb shall not be entitled to receive any remuneration from the Mudaraba.

The Mudareb will agree in the Mudaraba Agreement that all payments by it under the Mudaraba Agreement will be made net of withholding or deduction of Taxes where required by law and provide for the payment of Additional Amounts so that the full amount which otherwise would have been due and payable to the Trustee, and/or under the Certificates, is received by the Trustee. Any taxes incurred in connection with the operation of the Mudaraba (including in connection with any transfer, sale or disposal of any Mudaraba Asset during the Mudaraba Term) will be borne by the Mudaraba itself.

The Mudaraba Agreement also provides for the Mudaraba Capital to be increased accordingly should further Certificates be issued pursuant to Condition 16 (*Further Issues*).

Agency Agreement

The Agency Agreement will be entered into on 20 March 2013 between the Trustee, DIB, the Delegate, the Principal Paying Agent, the Calculation Agent, the Registrar and the Transfer Agent.

Pursuant to the Agency Agreement, the Registrar has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to authenticate and deliver the Global Certificate and, if any, each Definitive Certificate; the Principal Paying Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to pay all sums due under such Global Certificate; the Calculation Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to calculate the Profit Rate in respect of each Reset Period commencing on the relevant Reset Date, subject to and in accordance with the Conditions; and the Transfer Agent has agreed to be appointed as agent of the Trustee and has agreed, amongst other things, to effect requests to transfer all or part of the Definitive Certificate and issue Definitive Certificates in accordance with each request.

On the Issue Date, the Registrar will (i) authenticate the Global Certificate in accordance with the terms of the Declaration of Trust; and (ii) deliver the Global Certificate to the Common Depositary.

DIB shall cause to be deposited into the Transaction Account opened by the Trustee with the Principal Paying Agent, in same day freely transferable, cleared funds, any payment which may be due under the Certificates in accordance with the Conditions.

The Principal Paying Agent agrees that it shall, on each Periodic Distribution Date and on the date fixed for payment of the Dissolution Distribution Amount, or any earlier date specified for the liquidation of the Mudaraba, apply the monies standing to the credit of the Transaction Account in accordance with the order of priority set out in the Declaration of Trust.

TAXATION

The following is a general description of certain tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of the Certificates should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes of acquiring, holding and disposing of Certificates and receiving payments under the Certificates. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments principal or profit on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of principal or profit to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. No stamp duty is payable in respect of the issue of the Certificates. An instrument of transfer in respect of a Certificate is stampable if executed in or brought into the Cayman Islands. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised share capital. At current rates, this annual registration fee is approximately US$855.

United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to payments on the Certificates and pursuant to the Mudaraba Agreement is based on the taxation law in force at the date of this Prospectus, and does not constitute legal or tax advice. Prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change.

There is currently in force in the emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE, Abu Dhabi or Dubai taxation in respect of payments made by DIB under the Mudaraba Agreement and/or the Trustee under the Certificates. If any such withholding or deduction is required to be made in respect of payments due by DIB under the Mudaraba Agreement, DIB has undertaken in the Mudaraba Agreement to gross-up the payments due by it accordingly. If any such withholding or deduction is required to be made in respect of payments due by the Trustee under the Certificates, (i) the Trustee has undertaken to gross-up the payment(s) accordingly (subject to certain limited exceptions) and (ii) DIB has undertaken under the Mudaraba Agreement to pay such additional amounts to the Trustee to enable the Trustee to discharge such obligation.

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income, which may include Periodic Distribution Amounts) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland). The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 19 March 2013 between the Trustee, DIB, Dubai Islamic Bank PJSC (in its capacity as joint lead manager), Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C. and Standard Chartered Bank (together, the "**Joint Lead Managers**"), Abu Dhabi Islamic Bank PJSC, Barwa Bank Q.S.C. and Sharjah Islamic Bank PJSC (the "**Co-Lead Managers**" and, together with the Joint Lead Managers, the "**Managers**"), the Trustee has agreed to issue and sell to the Managers U.S.$1,000,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Managers have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Managers to pay for and accept delivery of the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. The Managers will be paid certain commissions in respect of their services for managing the issue and sale of the Certificates and a further placing commission will be paid to third parties. The Managers will also be reimbursed in respect of certain of their expenses, and each of the Trustee and DIB has agreed to indemnify the Managers against certain liabilities incurred in connection with the issue and offering of the Certificates.

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to DIB and/or their affiliates in the ordinary course of business.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Certificates (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Issue Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells the Certificates.

The Certificates are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Certificates, an offer or sale of Certificates within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificate in circumstances in which section 21(1) of the FSMA does not apply to the Trustee or DIB; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Cayman Islands

Each Manager has represented and agreed that no invitation has been, or will be made to any member of the public in the Cayman Islands to subscribe for the Certificates.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia (a "**Saudi Investor**") who acquires Certificates pursuant to any offering should note that the offer of Certificates is being made as a private placement by way of an "offer restricted to sophisticated investors" pursuant to Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Markets Authority ("**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the KSA Regulations. Each Manager has represented, warranted and undertaken that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

Investors are informed that Article 17 of the KSA Regulations place restrictions on secondary market activity with respect to the Certificates, including as follows:

(a) a Saudi Investor (referred to as a "**transferor**") who has acquired Certificates pursuant to a private placement may not offer or sell Certificates to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

  (i) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

  (ii) the Certificates are offered or sold to a sophisticated investor; or

  (iii) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(b) if the requirement of paragraph (a)(l) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his/her entire holding of Certificates to one transferee; and

(d) the provisions of paragraphs (a), (b) and (c) (inclusive) above shall apply to all subsequent transferees of the Certificates.

Kingdom of Bahrain

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell or deliver, directly or indirectly, any Certificates in the State of Qatar, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong by means of any document, any Certificates other than: (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Manager has represented and agreed that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription to purchase, of any Certificates, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, or (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

    (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

    (ii) where no consideration is or will be given for the transfer;

    (iii) where the transfer is by operation of law; or

    (iv) as specified in Section 276(7) of the SFA.

Malaysia

Each Manager has represented and agreed that:

(a) the Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the "**SC**") under the Capital Markets and Services Act 2007 of Malaysia ("**CMSA**"). A copy of the Prospectus will not be deposited with the SC, and the SC takes no responsibility for its content; and

(b) accordingly, the Certificates have not been and will not be issued, offered for subscription or purchase, sold or delivered, nor will any invitation to subscribe for or purchase the Certificates be made, directly or indirectly, nor may the prospectus, any application for the Certificates or any document or other material in connection with the offering, the prospectus or the Certificates be circulated or distributed in Malaysia, other than to persons falling within Schedule 6 (paragraph 229(l)(b)), Schedule 7 or Section 230(l)(b), Schedule 8 or Section 257(3) of the CMSA, subject to any law, order, regulation, or official directive of the Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Managers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Switzerland

This Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Certificates described herein. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Prospectus nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

General

Neither the Issuer nor DIB nor any Manager has made any representation that any action will be taken in any jurisdiction by the Managers or the Issuer or DIB that would permit a public offering of the Certificates, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Certificates (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Manager has agreed that it will comply to the best of its knowledge and belief with all applicable securities laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers any Certificates or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense.

GENERAL INFORMATION

Listing

The listing of the Certificates on the Official List will be expressed as a percentage of their face amount (exclusive of accrued profit). It is expected that listing of the Certificates on the Official List and admission of the Certificates to trading on the Regulated Market will be granted on or before the Issue Date, subject only to the issue of the Global Certificate.

This Prospectus has been approved by the Irish Central Bank as competent authority under the Prospectus Directive. Such approval relates only to the Certificates which are to be admitted to trading on the Regulated Market. The Irish Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Certificates and is not itself seeking admission of the Certificates to the Official List of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

The expenses in relation to the admission of the Certificates to trading on the Regulated Market will be approximately €4,940.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Issuer dated 11 March 2013. DIB Tier 1 Sukuk Ltd., in its capacity as Issuer and Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of the Certificates and the execution and performance of the Transaction Documents. The entry by DIB into the Transaction Documents was authorised by the shareholders of DIB on 4 March 2013 and by the directors of DIB on 3 January 2013.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 090233076 and ISIN XS0902330769.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, LI 855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of DIB and its subsidiaries, and there has been no material adverse change in the prospects of DIB and its subsidiaries, in each case since 31 December 2012. There has been no significant change in the financial or trading position of the Issuer or the Trustee and no material adverse change in the prospects of the Issuer or the Trustee, in each case since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Save as disclosed on pages 17-18 and 109-110 of this Prospectus in "*Risk Factors – Risks Relating to DIB – 9/11 Litigation*" and "*Description of Dubai Islamic Bank PJSC – Risk Management – Legal Risk – Legal Proceedings*", neither DIB nor any of its Subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which DIB is aware) during the 12 months preceding the date of the Prospectus that may have or have in such period had a significant effect on the financial position or profitability of DIB and/or its Subsidiaries, respectively.

Auditors

The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The auditors of DIB are Deloitte & Touche (M.E.), chartered accountants, who have audited DIB's accounts, without qualification, in accordance with IFRS for each of the two financial years ended on 31 December 2011 and 31 December 2012. Deloitte & Touche (M.E) has no material interest in DIB. Deloitte & Touche (M.E) are independent auditors registered to practice as auditors with the Ministry of Economy in the UAE.

Documents Available

Copies of the following documents will be available in electronic and physical format and in English to be inspected during normal business hours at the specified office for the time being of the Principal Paying Agent for the life of the Certificates from the date of this Prospectus:

(a) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of DIB;

(b) the Financial Statements. DIB currently prepares audited consolidated financial statements on an annual basis and consolidated interim financial information for every quarter of each year. The Trustee is not required to, and does not intend to, publish any annual financial or interim financial statements;

(c) a copy of this Prospectus together with any supplement to this Prospectus; and

(d) the Transaction Documents.

***Shari'a* Approvals**

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa and Sharia Supervisory Board of DIB in liaison with Dar Al Sharia Legal & Financial Consultancy LLC, the HSBC Amanah Central Shariah Committee and the *Shari'a* Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on any of the approvals referred to above in deciding whether to make an investment in the Certificates and should consult their own *Shari'a* advisers as to whether the proposed transaction is in compliance with *Shari'a* principles.

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Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements
for the year ended 31 December 2012

Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2012

Deloitte

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai, United Arab Emirates

Tel: +971(0) 4 376 8888
Fax:+971(0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Dubai Islamic Bank P.J.S.C.
Dubai
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C. (the "Parent") and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Parent. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Parent which might have a material effect on the financial position of the Parent or its financial performance.

Deloitte & Touche (M.E.)

Anis Sadek
Registration Number 521
4 February 2013

Consolidated statement of financial position as at 31 December 2012

	Note	2012 AED'000	2011 AED'000 (Restated)
ASSETS			
Cash and balances with central banks	6	**15,473,549**	12,952,319
Due from banks and financial institutions	7	**3,169,114**	3,043,096
Islamic financing and investing assets, net	8	**55,560,103**	51,507,049
Investments in Islamic sukuk measured at amortised cost	9	**11,088,662**	12,688,111
Other investments	10	**2,144,871**	2,034,389
Investments in associates	11	**2,294,028**	2,336,439
Properties held for sale	12	**224,909**	609,756
Investment properties	13	**1,931,808**	1,785,205
Receivables and other assets	14	**2,920,298**	3,050,690
Property and equipment	15	**557,357**	581,410
Total assets		**95,364,699**	90,588,464
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	18	**66,800,852**	64,929,839
Due to banks and financial institutions	19	**6,158,289**	4,052,433
Sukuk financing instruments	20	**4,673,960**	4,173,983
Medium term wakala finance	21	**3,752,543**	3,752,543
Payables and other liabilities	22	**3,255,628**	3,384,833
Zakat payable	24	**163,572**	121,076
Total liabilities		**84,804,844**	80,414,707
EQUITY			
Share capital	25	**3,797,054**	3,797,054
Other reserves	26	**5,348,964**	5,348,964
Investments fair value reserve	27	**(820,130)**	(831,849)
Exchange translation reserve	28	**(191,488)**	(122,218)
Retained earnings		**1,454,162**	943,484
Equity attributable to equity holders of the Parent		**9,588,562**	9,135,435
Non-controlling interests	30	**971,293**	1,038,322
Total equity		**10,559,855**	10,173,757
Total liabilities and equity		**95,364,699**	90,588,464

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

H. E. Mohammad Ibrahim Al Shaibani
Chairman

Dr. Tarek Humaid Al Tayer
Vice Chairman

Abdulla Ali Al Hamli
Chief Executive Officer

Consolidated income statement
for the year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	32	**3,286,436**	3,448,506
Income from investments in Islamic sukuk		**621,465**	517,332
Income from International murabahats and wakala, short term	33	**55,359**	83,133
Gain from other investments, net	34	**59,918**	39,036
Commissions, fees and foreign exchange income	35	**733,365**	700,587
Income from investment properties	36	**98,209**	70,042
Income from sale of properties held for sale, net	37	**15,123**	15,390
Other income	38	**156,449**	130,837
Total income		**5,026,324**	5,004,863
EXPENSES			
Personnel expenses	39	**(914,837)**	(908,883)
General and administrative expenses	40	**(476,953)**	(443,096)
Depreciation of investment properties	13	**(31,351)**	(24,205)
Depreciation of property and equipment	15	**(99,196)**	(120,313)
Impairment loss on financial assets, net	41	**(972,633)**	(994,964)
Impairment loss on non-financial assets, net	42	**(70,495)**	(91,948)
Total expenses		**(2,565,465)**	(2,583,409)
Profit before depositors' and sukuk holders' share of profits, share of profit from associates and income tax		**2,460,859**	2,421,454
Depositors' and sukuk holders share of profits	43	**(1,316,205)**	(1,386,808)
Operating profit for the year		**1,144,654**	1,034,646
Share of profit from associates	11	**60,301**	28,551
Profit for the year before income tax		**1,204,955**	1,063,197
Income tax expense	23	**(12,801)**	(6,782)
Profit for the year		**1,192,154**	1,056,415
Attributable to:			
Equity holders of the Parent		**1,150,072**	1,010,141
Non-controlling interests		**42,082**	46,274
Profit for the year		**1,192,154**	1,056,415
Basic and diluted earnings per share (AED per share)	44	**AED 0.30**	AED 0.26

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

Consolidated statement of comprehensive income for the year ended 31 December 2012

	2012 AED'000	2011 AED'000 (Restated)
Profit for the year	**1,192,154**	1,056,415
Other comprehensive income/(loss) items		
Currency translation differences of foreign operations	**(69,270)**	(30,677)
Reclassification of cash flow hedging reserve to profit or loss	**-**	(10,656)
Fair value income/(loss) on other investments carried at FVTOCI	**11,719**	(146,724)
Directors' remuneration	**(5,350)**	(5,350)
Total other comprehensive loss for the year	**(62,901)**	(193,407)
Total comprehensive income for the year	**1,129,253**	863,008
Attributable to:		
Equity holders of the Parent	**1,087,171**	816,734
Non-controlling interests	**42,082**	46,274
Total comprehensive income for the year	**1,129,253**	863,008

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

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share capital AED'000	Other reserves AED'000	Investments fair value reserve AED'000	Exchange translation reserve AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the Parent AED'000	Non-controlling interests AED'000	Total Equity AED'000
Balance at 1 January 2011 (Restated)	3,797,054	5,358,018	(243,166)	(91,541)	10,656	495,058	9,326,079	947,008	10,273,087
Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (note 54.1)	-	-	(441,973)	-	-	(36,070)	(478,043)	-	(478,043)
Balance at 1 January 2011 after IFRS 9 effect (Restated)	3,797,054	5,358,018	(685,139)	(91,541)	10,656	458,988	8,848,036	947,008	9,795,044
Profit for the year	-	-	-	-	-	1,010,141	1,010,141	46,274	1,056,415
Other comprehensive loss for the year	-	-	(146,724)	(30,677)	(10,656)	(5,350)	(193,407)	-	(193,407)
Total comprehensive income for the year	-	-	(146,724)	(30,677)	(10,656)	1,004,791	816,734	46,274	863,008
Additions in the non-controlling interest	-	-	-	-	-	-	-	61,383	61,383
Transfer from investments revaluation reserve to retained earnings	-	-	14	-	-	(14)	-	-	-
Disposal of donated land reserve	-	(9,054)	-	-	-	-	(9,054)	-	(9,054)
Dividends paid (note 29)	-	-	-	-	-	(379,705)	(379,705)	(2,952)	(382,657)
Zakat payable (note 24)	-	-	-	-	-	(140,576)	(140,576)	(13,391)	(153,967)
Balance at 31 December 2011 (Restated)	3,797,054	5,348,964	(831,849)	(122,218)	-	943,484	9,135,435	1,038,322	10,173,757
Profit for the year	-	-	-	-	-	**1,150,072**	**1,150,072**	**42,082**	**1,192,154**
Other comprehensive loss for the year	-	-	**11,719**	**(69,270)**	-	**(5,350)**	**(62,901)**	-	**(62,901)**
Total comprehensive income for the year	-	-	**11,719**	**(69,270)**	-	**1,144,722**	**1,087,171**	**42,082**	**1,129,253**
Additions in non-controlling interest	-	-	-	-	-	-	-	**110,364**	**110,364**
Disposal of non-controlling interest (note 17 (d))	-	-	-	-	-	-	-	**(180,605)**	**(180,605)**
Dividends paid (note 29)	-	-	-	-	-	**(474,632)**	**(474,632)**	**(24,570)**	**(499,202)**
Zakat payable (note 24)	-	-	-	-	-	**(159,412)**	**(159,412)**	**(14,300)**	**(173,712)**
Balance at 31 December 2012	**3,797,054**	**5,348,964**	**(820,130)**	**(191,488)**	-	**1,454,162**	**9,588,562**	**971,293**	**10,559,855**

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

Consolidated statement of cash flows
for the year ended 31 December 2012

	2012 AED'000	2011 AED'000 (Restated)
Operating activities:		
Profit for the year before income tax	1,204,955	1,063,197
Adjustments for:		
Net impairment loss on financial assets, net	972,633	994,964
Net impairment loss on non-financial assets, net	70,495	91,948
Depreciation of property, plant and equipment	99,196	120,313
Depreciation of investment properties	31,351	24,205
Provision for employees' end-of-service benefits	19,268	19,248
Gain on disposal of investment in Islamic sukuk	(37,058)	(712)
Dividend income	(21,033)	(35,679)
Share of profit from associates	(60,301)	(28,551)
Gain on disposal of associates	(4,791)	-
Gain on disposal of properties held for sale	(15,123)	(15,390)
Amortisation of sukuk instruments issued by a subsidiary	5,957	16,333
Gain on disposal of subsidiaries	(3,375)	-
Write off of property and equipment	259	717
Amortisation of hedging reserve	-	(10,656)
Revaluation of investments at fair value through profit or loss	(313)	541
Gain on disposal of property and equipment	(351)	(245)
Gain on disposal of investments at fair value through profit or loss	(1,514)	(3,186)
Operating cash flow before changes in operating assets and liabilities	2,260,255	2,237,047
Net movement in deposits and International murabahat with original maturities above three months	(1,868,069)	(3,401,770)
(Increase)/decrease in Islamic financing and investing assets	(5,019,990)	4,582,866
Decrease/(increase) in receivables and other assets	1,390	(33,174)
Increase in customers' deposits	2,007,844	1,223,168
Increase/(decrease) in due to banks and financial institutions	2,345,405	(356,994)
(Decrease)/increase in payables and other liabilities	(138,334)	18,969
Cash (used in)/generated from operating activities	(411,499)	4,270,112
Employees' end-of-service benefits paid	(4,706)	(10,833)
Tax paid	(5,652)	(6,017)
Net cash (used in)/generated from operating activities	(421,857)	4,253,262

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

Consolidated statement of cash flows
for the year ended 31 December 2012 (continued)

	2012 AED'000	2011 AED'000 (Restated)
Investing activities		
Purchase of investments in Islamic sukuk	**(2,235,776)**	(4,730,837)
Proceeds from disposal of investments in Islamic sukuk	**3,830,583**	286,913
Proceeds from disposal of investments at FVTPL	**80,341**	18,580
Purchase of investments carried at FVTOCI	**(4,591)**	(58,066)
Dividend received	**31,615**	46,336
Additions to properties held for sale	**(18,912)**	(49,497)
Proceeds from disposal of properties held for sale	**27,341**	30,686
Proceeds from disposal of investment properties	**-**	2,658
Additions to investment properties	**(124,095)**	(203,503)
Purchase of property and equipment	**(80,867)**	(58,138)
Proceeds from disposal of associates	**29,109**	-
Purchase of investments in associates	**(10,665)**	-
Proceeds from disposal of property and equipment	**870**	964
Net cash generated from/(used in) investing activities	**1,524,953**	(4,713,904)
Financing activities		
Dividends paid	**(499,202)**	(382,657)
Sukuk financing instrument issued during the year	**2,847,707**	-
Sukuk financing instrument repaid during the year	**(2,357,075)**	-
Zakat paid	**(118,629)**	(180,711)
Net cash used in financing activities	**(127,199)**	(563,368)
Increase/(decrease) in cash and cash equivalents	**975,897**	(1,024,010)
Cash and cash equivalents at 1 January	**9,473,570**	10,483,681
Net foreign exchange difference	**(29,161)**	13,899
Cash and cash equivalents at 31 December (Note 45)	**10,420,306**	9,473,570

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

Notes to the consolidated financial statements for the year ended 31 December 2012

1 General information

Dubai Islamic Bank (Public Joint Stock Company) (the "Parent") 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.

The accompanying consolidated financial statements combine the activities of the Parent and its subsidiaries (note 17) (together referred to as the "Bank").

The Bank's entities provide various types of retail and corporate banking services, and investment banking services in primarily the U.A.E. The principal activities of the Bank's entities are described in note 17.

The registered head office of the Parent is at P.O. Box 1080, Dubai, United Arab Emirates.

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 Revised IFRSs applied with no material effect on the consolidated financial statements

The following revised IFRSs have also been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Revised IFRSs	Summary of requirement
Amendments to IFRS 7 *Financial Instruments : Disclosure - Transfer of Financial Assets*	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred, but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The adoption of the amendments has had no effect on these consolidated financial statements as the Bank were not engaged in transactions involving transfers of financial assets where the Bank retains some level of continuing exposure in the asset during the current or previous years.
Amendments to IAS 12 *Deferred Tax - Recovery of Underlying Assets*	The amendments provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The adoption of the amendments has had no material effect on these consolidated financial statements as the Bank's investment properties are measured by using the cost method.

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs is in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	Effective for annual periods <u>beginning on or after</u>
• Amendments to IFRS 7 *Financial Instruments: Disclosure* - Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities.	1 January 2013
• IFRS 10 *Consolidated Financial Statements* & IAS 27 (as revised in 2011) *Separate Financial Statements* – IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC 12 *Consolidation – Special Purpose Entities*. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. The management is still in the process of analysing the impact of this standard on the consolidated financial statements of the Bank.	1 January 2013
• IFRS 11 *Joint Arrangements* – The standard replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of IFRS 11 will result in changes in the accounting of the Bank's jointly controlled entity that is currently accounted for using the proportionate consolidation method.	1 January 2013

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs is in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• IFRS 12 *Disclosure of interests in other entities* - the standard is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. However, the management have not yet performed a detailed analysis of the impact of the application of this standard on the Bank's consolidated financial statements and hence have not yet quantified the extent of the impact.	1 January 2013
• IFRS 13 *Fair Value Measurement* – the standard establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of this standard is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in the standard are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope. The management anticipates that the application of this standard will not materially affect the amounts reported in the consolidated financial statements, but will extend fair-value-related disclosures in the consolidated financial statements.	1 January 2013
• Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of interests in other entities* and IAS 27 (as revised in 2011) *Separate Financial Statements* - exemption from the requirement to consolidate subsidiaries for eligible investment entities (such as mutual funds, unit trusts, and similar entities), instead requiring the use of the fair value to measure those investments The management is still in the process of analysing the impact of this standard on the consolidated financial statements of the Bank.	1 January 2014

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs is in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* - These amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.	1 July 2012
• IAS 19 (as revised in 2011) *Employee Benefits* - These amendments change the accounting for defined benefit plans and termination benefits. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments require retrospective application with certain exceptions.	1 January 2013
• IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*	1 January 2013
• Amendments to IAS 32 *Financial Instruments : Presentation – Offsetting of Financial Assets and Financial Liabilities*	1 January 2014
• Amendments to IAS 1 *Presentation of Financial Statements* (comparative information); IAS 16 *Property, Plant and Equipment* (servicing equipment); IAS 32 *Financial Instruments – Presentation* (tax effect of equity distribution); and IAS 34 *Interim Financial Reporting* (interim reporting of segment assets) resulting from annual improvements 2009-2011 cycle.	1 January 2013
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

3 Definitions

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

3.1 Murabaha

An agreement whereby the Bank sells to a customer a commodity or asset, 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. The Murabaha sale price is paid by the customer on an installment basis over the period of the Murabaha contract.

3.2 Salam finance

An agreement whereby the Bank purchases a fixed quantity of a specified commodity and pays the full price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule.

3.3 Istisna'a

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

3.4 Ijarah

3.4.1 Ijarah Muntahiya Biltamleek

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

3.4.2 Forward Ijarah

Forward Ijarah is an agreement whereby the Bank (the "Lessor") agrees to provide, on a specified future date, a certain described asset on lease to the customer (the "Lessee") upon its completion and delivery by the developer or contractor, from whom the Bank has purchased the same. The arrangement could end by transferring the ownership of the asset to the customer (Lessee).

3.5 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 property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer for 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.

3 Definitions (continued)

3.6 Mudaraba

An agreement between the Bank and a customer (Mudarib) whereby the Group would provide a certain amount of funds, which the 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.

3.7 Wakala

An agreement whereby the Group provides a certain amount of money to an agent, who invests in a Sharia'a compliant manner and 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.

3.8 Sukuk

These comprise asset backed, Sharia'a compliant trust certificates.

4 Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of the U.A.E.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments classified as other investments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below.

4.3 Presentation of consolidated financial statements

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 49 to these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities (including special purpose entities) controlled by the Parent (its subsidiaries). Control is achieved where the Parent has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Bank.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Bank had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

4.5 Fiduciary activities

The Bank acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

4 Significant accounting policies (continued)

4.6 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a Bank's entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Bank' consolidated financial statements only to the extent of interests in the associate that are not related to the Bank.

4.7 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Bank and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.7 Interests in joint ventures (continued)

The Bank reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Bank's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Bank's interest in a jointly controlled entity is accounted for in accordance with the Bank's accounting policy for goodwill arising in a business combination.

When a Bank's entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Bank' consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Bank.

4.8 Financial instruments

Financial assets and liabilities are recognised when a Bank's entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

4.9 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

4.9.1 Classification of financial assets

Financing instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Financial assets measured at amortized cost include 'balances with central banks', 'due from banks and financial institutions', 'Islamic financing and investing assets', 'investments in Islamic sukuk' and certain 'receivables and other assets'.

All other financial assets are subsequently measured at fair value.

4 Significant accounting policies (continued)

4.9 Financial assets (continued)

4.9.2 Amortized cost and effective profit rate method

The effective profit method is a method of calculating the amortised cost of those financial instruments measured at amortized cost and of allocating income over the relevant period. The effective profit rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised on an effective profit basis for financing and investing instruments measured subsequently at amortised cost. Income is recognised in the consolidated income statement.

4.9.3 Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve in equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments.

Dividends on these investments in equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in the consolidated income statement and are included in the 'gain from other investments' line item.

4.9.4 Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above).

Financing instruments that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, financing instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financing instruments may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any financing instrument as at FVTPL.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.9 Financial assets (continued)

4.9.4 Financial assets at fair value through profit or loss (FVTPL) (continued)

Financing assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financing instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'gain from other investments' line item in the consolidated income statement. Fair value is determined in the manner described in note 51 to these consolidated financial statements.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Bank's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the consolidated income statement as disclosed above.

4.9.5 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in consolidated income statement; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated financial instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

4.9.6 Impairment of financial assets

Financial assets (including financing and investing assets, investments in Islamic sukuk, balances due from banks and financial institutions, balances with central banks and other assets) that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets measured at amortized cost are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in profit or principal payments;
- it becoming probable that the customer will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.9 Financial assets (continued)

4.9.6 Impairment of financial assets (continued)

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, calculated using the financial asset's original effective profit rate.

The carrying amount of the financial asset measured at amortized cost is reduced by the impairment loss directly for all financial assets with the exception of Islamic financing and investing assets, where the carrying amount is reduced through the use of an allowance account. When the Islamic financing and investing assets are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

Impairment of Islamic financing and investing assets measured at amortized cost is assessed by the Bank as follows:

4.9.6.1 Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

- Principal and profit are not serviced as per contractual terms; and
- When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows valued at the Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing assets' observable market price or fair value of the collaterals if the Islamic financing and investing assets is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing assets' carrying value and its present impaired value.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.9 Financial assets (continued)

4.9.6 Impairment of financial assets (continued)

4.9.6.2 Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

4.9.6.3 Incurred but not yet identified

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or Islamic financing and investing assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the consolidated financial position date, which the Bank is not able to identify on an individual basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual Islamic financing and investing assets within the group of the customer, those Islamic financing and investing assets are removed from the group of the customer and assessed on an individual basis for impairment.

4.9.6.4 Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continue to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the customer complying with the revised terms and conditions and base upon performance criteria of the exposure such as minimum payment requirements and improvement in quality and effectiveness of collateral, to be moved to performing category.

4.9.7 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised Islamic financing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve in equity is not reclassified to the consolidated income statement, but is transferred to retained earnings within equity.

4 Significant accounting policies (continued)

4.10 Financial liabilities and equity instruments

4.10.1 Classification as liability or equity

Liability and equity instruments issued by the Bank are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

4.10.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4.10.3 Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Bank, and commitments issued by the Bank to provide a facility at below-market profit rate are measured in accordance with the specific accounting policies set out below.

4.10.3.1 Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method. Customers' share of profit that is not capitalised as part of costs of an asset is included in the consolidated income statement.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating customers' share of profit over the relevant period. The effective profit rate is the rate that is used to calculate the present value of estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs through the expected life of the financial liability, or (where appropriate) a shorter period, to arrive at the net carrying amount on initial recognition.

Financial liabilities measured at amortised cost include 'due to banks and financial institutions', 'customers' deposits', 'sukuk financing instruments', 'medium term wakala finance' and certain 'payables and other liabilities'.

4.10.3.2 Convertible sukuk financing instruments

Convertible sukuk financing instruments that can be settled at the option of the issuer are recorded as compound financial instruments. The equity component of the convertible sukuk is calculated as the excess of the issue proceeds over the present value of the future profit and principal payments, calculated using the market rate of profit applicable to similar liabilities that do not have a conversion option.

4 Significant accounting policies (continued)

4.10 Financial liabilities and equity instruments (continued)

4.10.3 Financial liabilities (continued)

4.10.3.3 Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

4.10.3.4 Financial guarantee

A financial guarantee is an undertaking/commitment that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the guarantee, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

4.10.3.5 De-recognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

4.11 Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.12 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic profit rate swap.

Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether Islamic derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in consolidated income statement.

When Islamic derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to Islamic derivatives designated as hedging instruments in a fair value, cash flow or net investment hedges provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in the consolidated income statement.

4.12.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the Islamic derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the Islamic derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.12 Islamic derivative financial instruments (continued)

4.12.2 Cash flow hedges

The effective portion of changes in the fair value of Islamic derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

4.12.3 Islamic Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of Islamic derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of Islamic derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Islamic derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate Islamic derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

4.13 Unilateral promise to buy/sell currencies (the Promise)

The promises are stated at fair value. The fair value of a promise is the equivalent of the unrealised gain or loss from marking to market the promise using prevailing market rates. The promise with positive market value (unrealised gain) are included in other assets and the promise with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

4.14 Fair values

4.14.1 Fair values - Financial instruments

For quoted investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business at the end of reporting period.

For unquoted investments not actively traded in organised financial markets fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market.

The fair value of unilateral promise to buy/sell currencies is calculated by reference to foreign exchange rates with similar maturities.

4 Significant accounting policies (continued)

4.14 Fair values (continued)

4.14.2 Fair values - non financial assets

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

4.15 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 47 on Business Segment reporting.

4.17 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.18 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 the lower of cost and net realisable value. Net realisable value represents the estimated selling price for properties less all estimated costs of completion and costs necessary to make the sale.

Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress.

4 Significant accounting policies (continued)

4.19 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured at cost less accumulated depreciation and impairment loss, if any. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

Transfers to investment properties are made when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers from investment properties are made when, and only when, there is change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

4.20 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

• 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

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

4 Significant accounting policies (continued)

4.20 Property and equipment (continued)

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss, if any. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Bank's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Bank's policies.

4.21 Impairment of tangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the present value of the estimated future cash flows are calculated using a profit rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement.

4.22 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Bank has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.23 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 2 of 2000.

The Bank provides end of service benefits for 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.

4.24 Share-based payment arrangement

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each reporting date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4.25 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiaries in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

4.25.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.25.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4 Significant accounting policies (continued)

4.25 Taxation (continued)

4.25.2 Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4.26 Zakat

Zakat for shareholders is computed based on "Net Invested Funds Method" which is in accordance with Fatwa and Sharia'a Supervisory Boards.

The Zakat for the shareholders is accounted for as follows:

4.26.1 Zakat accounted by the Bank on shareholders' behalf

Zakat is accounted as per the Articles and Memorandum of Association of the Bank's and is approved by the Bank's Fatwa and Sharia'a Supervisory Boards on the following basis:

- The portion of Zakat payable by the Bank on its shareholders' behalf is calculated on 'statutory reserve', 'general reserve', 'retained earnings' and 'provision for employees' end of service benefits';
- Zakat paid by investee companies directly are adjusted in shareholders Zakat, if the Bank only accounts for net profit after Zakat of investee;
- Zakat on depositors' investment risk reserve is calculated and deducted from the investment risk reserve balance held with the bank and added to the Zakat payable balance; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board of Directors.

4.26.2 Zakat payable by the shareholders'

Zakat payable by the shareholders directly represents the differential/remaining Zakat which is the difference between total Zakat computed by the Bank, as per Zakat accounted by the Bank on shareholders' behalf and then calculated, as per the Bank's entities Articles and Memorandum of Association and approval of the Bank's Fatwa and Sharia'a Supervisory Boards.

4.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

4.27.1 Income from financial assets measured at amortized cost

Income from a financial asset measured at amortized cost (including income from financing and investing assets) is recognised when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Income is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that is used to calculate the present value of estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.27 Revenue recognition (continued)

4.27.1 Income from financial assets measured at amortized cost (continued)

Murabahat

Murabahat income is recognised on an effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Salam finance

Salam income is recognised on effective profit rate basis over the period of contract based on salam capital outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the sale 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 an effective profit rate basis over the Ijarah term.

Musharaka

Income is accounted 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 recognised on effective profit rate basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

Wakala income is recognised on an effective profit rate basis over the Wakala term.

Sukuk

Income is accounted for on effective profit rate basis over the term of the Sukuk.

4.27.2 Fee and commission income

Fee and commission income is recognised when the related services are performed.

4.27.3 Dividend income

Dividend income from other investments in equities is recognised when the right to receive the dividend is established.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.27 Revenue recognition (continued)

4.27.4 Revenue from sale of properties, net

Revenue from the sale of properties is recognized when the properties are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Bank has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

4.27.5 Rental income

The Bank's policy for recognition of revenue from operating leases is described in note 4.29 below.

4.27.6 Forfeited income

In according to the Bank's Fatwa and Sharia'a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a principles, as interpreted by Fatwa and Sharia'a Supervisory Board, and to set aside such amount in a separate account used to pay for local charitable causes and activities.

4.28 Depositors' share of profit calculation

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 Sharia'a Supervisory Board.

4.29 Leasing

4.29.1 The Bank as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4.29.2 The Bank as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

4 Significant accounting policies (continued)

4.30 Foreign currencies

In preparing the financial statements of each individual Bank's entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in the consolidated income statement in the period in which they arise except for:

- exchange differences on foreign currency Islamic financing relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to financing costs on those foreign currency Islamic financings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to the consolidated income statement on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Bank's foreign operations are translated into Arab Emirates Dirham, which is the Bank's presentation currency, using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank is reclassified to the consolidated income statement.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

5 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 4, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of Islamic derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of Islamic derivative financial instruments are summarised as follows:

5.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful Islamic financing and investing assets.

5.1.1 Individually assessed Islamic financing and investing assets

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals;
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

5.1.2 Collectively assessed Islamic financing and investing assets

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of Islamic financing and investing assets which may be impaired but not identified as of the consolidated financial position date.

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.2 Classification of investments

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Bank's investment in securities are appropriately classified and measured.

Financial assets that are measured at amortized cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit.

Financial assets that are measured at FVTOCI are strategic investments in equity instruments and investment funds that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

Financial assets that are measured at FVTPL are either held for trading or designated as FVTPL.

5.3 Impairment of associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

In determining the value in use of the investment, the Bank estimates:

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5.4 Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of Islamic derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, present value calculation of the estimated future cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, present value calculation of the estimated future cash flow analysis and other valuation techniques commonly used by market participants.

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.4 Islamic derivative financial instruments (continued)

The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

b) An appropriate profit rate for the instrument that is used to calculate the present value of the future estimated cash flows. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

5.5 Fair value of financial instruments

Where the fair values of financial assets recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as present value calculation rates, prepayment rates and default rate assumptions for 'asset-backed' securities.

5.6 Property and equipment, and investment properties

The cost of property and equipment, and investment properties is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

6 Cash and balances with central banks

(a) The analysis of the Bank's cash and balances with central banks as at 31 December 2012 and 2011 is as follows:

	2012	2011
	AED'000	AED'000 (Restated)
Cash on hand	**1,731,584**	1,494,417
Balances with central banks:		
Current accounts	**1,336,509**	773,160
Reserve requirements with central banks (note 6 (c))	**4,186,484**	4,162,897
International murabahat with the Central Bank of the U.A.E.	**8,218,972**	6,521,845
Total	**15,473,549**	12,952,319

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

6 Cash and balances with central banks (continued)

(b) The geographical analysis of the cash and balances with central banks as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**15,332,549**	12,822,994
Outside the U.A.E.	**141,000**	129,325
Total	**15,473,549**	12,952,319

(c) The reserve requirements are kept with the Central Banks of the U.A.E. and Islamic Republic of Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective central banks. The level of reserve required changes every month in accordance with the requirements of the respective central banks' directives.

7 Due from banks and financial institutions

(a) The analysis of the Bank's due from banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current accounts	**528,113**	451,311
Investment deposits	**891,867**	793,828
International murabahat - short term	**1,749,134**	1,797,957
Total	**3,169,114**	3,043,096

(b) The geographical analysis of the due from banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**2,217,222**	2,672,090
Outside the U.A.E.	**951,892**	371,006
Total	**3,169,114**	3,043,096

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

8 Islamic financing and investing assets, net

(a) The analysis of the Bank's Islamic financing and investing assets, as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Islamic financing Assets		
Vehicles murabahat	**5,653,007**	5,841,766
Real estate murabahat	**4,264,731**	4,580,452
Commodities murabahat	**3,815,483**	4,254,785
International murabahat - long term	**286,159**	301,959
Total murabahat	**14,019,380**	14,978,962
Home finance Ijarah	**12,318,412**	12,637,973
Other Ijarahs	**11,896,973**	8,906,952
Salam	**4,687,193**	3,165,976
Istisna'a	**4,491,960**	6,170,597
Islamic credit cards	**392,490**	454,715
	47,806,408	46,315,175
Deferred income	**(2,318,116)**	(2,983,812)
Contractors and consultants' Istisna'a contracts	**(121,805)**	(249,840)
Provision for impairment	**(3,063,156)**	(3,086,192)
Total Islamic financing assets, net	**42,303,331**	39,995,331
Islamic investing Assets		
Musharakat	**6,824,046**	6,447,876
Mudaraba	**3,894,714**	3,736,973
Wakalat	**3,174,278**	1,749,551
	13,893,038	11,934,400
Provision for impairment	**(636,266)**	(422,682)
Total Islamic investing assets, net	**13,256,772**	11,511,718
Total Islamic financing and investing assets, net	**55,560,103**	51,507,049

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

8 Islamic financing and investing assets, net (continued)

(b) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2012 and 2011 are as follows:

	2012		
	Within the U.A.E. AED'000	**Outside the U.A.E. AED'000**	**Total AED'000**
Economic sector			
Financial institutions	**1,086,348**	**263,164**	**1,349,512**
Real estate	**17,560,998**	**84,972**	**17,645,970**
Trade	**2,626,914**	**69,785**	**2,696,699**
Government	**4,081,540**	**-**	**4,081,540**
Manufacturing and services	**6,930,468**	**1,341,666**	**8,272,134**
Consumer home finance	**12,647,712**	**179,222**	**12,826,934**
Consumer financing	**12,143,907**	**242,829**	**12,386,736**
	57,077,887	**2,181,638**	**59,259,525**
Provision for impairment			**(3,699,422)**
Total			**55,560,103**

	2011 (Restated)		
	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
Economic sector			
Financial institutions	1,259,368	371,986	1,631,354
Real estate	18,786,291	-	18,786,291
Trade	1,763,472	63,486	1,826,958
Government	2,664,501	-	2,664,501
Manufacturing and services	4,610,553	1,124,366	5,734,919
Consumer home finance	12,309,934	245,577	12,555,511
Consumer financing	11,605,056	211,333	11,816,389
	52,999,175	2,016,748	55,015,923
Provision for impairment			(3,508,874)
Total			51,507,049

8 Islamic financing and investing assets, net (continued)

(c) The movements in the provision for impairment during the years ended 31 December 2012 and 2011 are as follows:

	2012		
	Financing AED'000	**Investing AED'000**	**Total AED'000**
Balance at 1 January	**3,086,192**	**422,682**	**3,508,874**
Charge for the year	**1,039,704**	**123,970**	**1,163,674**
Release to the profit or loss	**(270,381)**	**(8,899)**	**(279,280)**
Write-offs during the year	**(672,135)**	**(19,197)**	**(691,332)**
Other	**(120,224)**	**117,710**	**(2,514)**
Balance at 31 December	**3,063,156**	**636,266**	**3,699,422**
Gross amount of Islamic financing and investing assets, determined to be impaired			**6,118,079**

	2011 (Restated)		
	Financing AED'000	Investing AED'000	Total AED'000
Balance at 1 January	2,402,030	132,681	2,534,711
Charge for the year	1,113,285	403,902	1,517,187
Release to the profit or loss	(446,582)	(93,305)	(539,887)
Write-offs during the year	(1,979)	-	(1,979)
Other	19,438	(20,596)	(1,158)
Balance at 31 December	3,086,192	422,682	3,508,874
Gross amount of Islamic financing and investing assets, determined to be impaired			6,807,616

(d) The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include lien on savings and investment deposits, equities, properties and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Property and Mortgages	**41,422,964**	36,968,791
Machineries and vehicles	**2,238,444**	940,142
Deposits and equities	**779,402**	447,347

(e) The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2012 amounts to AED 5.5 billion (2011 (Restated): AED 5.0 billion).

(f) During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 7.5 million (2011 (Restated): AED 6.5 million), which has been adjusted against the outstanding receivables.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

9 Investments in Islamic sukuk measured at amortised cost

(a) The geographical analysis of the Bank's investments in Islamic Sukuk as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**10,066,975**	12,074,024
Other G.C.C. Countries	**233,249**	129,470
Rest of the World	**788,438**	484,617
Total	**11,088,662**	12,688,111

(b) Analysis of investments in Islamic sukuk measured at amortized cost by industry group as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Government	**5,390,379**	5,077,380
Manufacturing and services	**2,728,401**	5,288,887
Financial institutions	**1,943,936**	1,312,263
Real estate	**1,025,946**	1,009,581
Total	**11,088,662**	12,688,111

(c) Investments in Islamic sukuk within the U.A.E. include investments in bilateral governmental sukuk amounting to AED 3,673.0 million as at 31 December 2012 (2011 (Restated): AED 3,673.0 million).

10 Other investments

(a) The analysis of the Bank's other investments as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Investments designated at fair value through profit or loss	**2,223**	52,987
Investments measured at fair value through other comprehensive income	**2,142,648**	1,981,402
Total	**2,144,871**	2,034,389

(b) Analysis of other investments by industry group as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Manufacturing and services	**1,195,801**	1,224,639
Financial institutions	**548,031**	552,595
Real estate	**401,039**	257,155
Total	**2,144,871**	2,034,389

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

10 Other investments (continued)

(c) The geographical analysis of the other investments as at 31 December 2012 and 2011 is as follows:

	2012			
	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
Investments designated at fair value through profit or loss				
Quoted equity instruments	2,223	-	-	2,223
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	418,616	152,142	40,080	610,838
Unquoted equity instruments	846,424	60,957	83,196	990,577
Unquoted investment funds	305,754	1,794	233,685	541,233
	1,570,794	214,893	356,961	2,142,648
Total	1,573,017	214,893	356,961	2,144,871

	2011 (Restated)			
	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
Investments designated at fair value through profit or loss				
Quoted equity instruments	4,305	-	48,682	52,987
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	338,571	161,601	33,602	533,774
Unquoted equity instruments	947,748	61,685	83,387	1,092,820
Unquoted investment funds	122,117	5,851	226,840	354,808
	1,408,436	229,137	343,829	1,981,402
Total	1,412,741	229,137	392,511	2,034,389

(d) During the year ended 31 December 2012, dividends received from financial assets measured at fair value through other comprehensive income (FVTOCI) amounting to AED 19.8 million (2011 (Restated): AED 32.4 million) were recognized as gain from other investments in the consolidated income statement (note 34).

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

11 Investments in associates

(a) Details of the Bank's significant associates at 31 December 2012 and 2011 are as follows:

	Name of associate	Principal activity	Place of incorporation	Percentage of holding 2012	2011
1.	Bank of Khartoum	Banking	Sudan	**28.4%**	28.4%
2.	Jordan Dubai Islamic Bank	Banking	Jordan	**20.8%**	20.8%
3.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.	**44.8%**	44.8%
4.	Emirates REIT Management Private Limited (Note 17)	Properties management	U.A.E.	**25.0%**	-
5.	Liquidity Management Center (B.S.C.)	Brokerage services	Bahrain	**25.0%**	25.0%
6.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	**16.7%**	16.7%
7.	MESC Investment Company	Investments	Jordan	**40.0%**	40.0%

(b) Investments have been accounted for as investment in associates when the Bank is deemed to have significant influence. Although the Bank holds less than 20% of the equity shares of Ejar Cranes & Equipment L.L.C., and it has less than 20% of the voting power at shareholders meetings, the Bank exercises significant influence by being the major shareholder of the company, having a representative in the company's board of directors and being the major financing facilities provider.

(c) As at 31 December 2012, the fair value of the Bank's listed associates is AED 1,140.2 million (2011 (Restated): AED 821.7 million), and the carrying amount of the Bank's interest in those associates is AED 2,154.6 million (2011 (Restated): AED 2,156.5 million). All other investments are not listed in active markets and the management considers the carrying amounts of these investments approximate their fair values.

(d) Summarized financial information in respect of the Bank's associates is set out below:

	2012 AED'000	2011 AED'000 (Restated)
Share of associates' financial position:		
Assets	**6,121,540**	6,532,020
Liabilities	**(3,794,017)**	(4,187,199)
Net assets	**2,327,523**	2,344,821
Provision for impairment (note 11 (e))	**(33,495)**	(8,382)
Investments in associates	**2,294,028**	2,336,439
Share of associates' revenue and profit for the year:		
Revenue	**339,960**	248,970
Share of profit from associates	**60,301**	28,551

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

11 Investments in associates (continued)

(e) Movement of provision for impairment of investments in associates during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	8,382	130,228
Charge for the year (note 42)	33,495	3,128
Derecognized investments in associates	(8,382)	(124,974)
Balance at 31 December	33,495	8,382

(f) During the year ended 31 December 2011, the Bank discontinued the use of the equity method, for the Bank's interest in the equity of two associates due to the loss of the significant influence as defined under IAS 28, and reclassified these investments into other investments measured at FVTOCI in accordance with IFRS 9.

At the date of reassessment, the carrying value and fair values of the investments are as follows:

	2012 AED'000	2011 AED'000 (Restated)
Fair value of investments at the date of reassessment	-	841,817
Less: Carrying amount of investments in associates at the date of reassessment	-	(841,817)
Gain recognized	-	-

(g) The geographical analysis of the investment in associates as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	1,944,208	1,929,820
Other G.C.C. Countries	53,627	51,840
Rest of the world	296,193	354,779
Total	2,294,028	2,336,439

(h) During the year ended 31 December 2012, the Bank disposed off its interest in equity of two associates. This resulted in the recognition of a gain calculated as follows:

	2012 AED'000
Proceeds of disposal	29,109
Less: Carrying value of the investments at the time of disposal	(24,318)
Gain recognized (note 38)	4,791

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

12 Properties held for sale

(a) Properties held for sale represent properties in U.A.E., Egypt and Lebanon that are registered in the name of the Bank's entities.

(b) The movement of the properties held for sale during the years ended 31 December 2012 and 2011 is as follows:

	Properties AED'000	Properties under construction AED'000	Total AED'000
2012			
Balance at 1 January 2012	**504,472**	**105,284**	**609,756**
Additions	**18,912**	-	**18,912**
Disposals (note 37)	**(12,218)**	-	**(12,218)**
Impaired during the year (note 42)	**(6,000)**	-	**(6,000)**
Transferred to investment properties (note 13(d))	**(381,749)**	-	**(381,749)**
Foreign exchange effect	**(3,792)**	-	**(3,792)**
Balance at 31 December 2012	**119,625**	**105,284**	**224,909**
2011 (Restated)			
Balance at 1 January 2011	544,959	524,165	1,069,124
Additions	18,112	31,385	49,497
Disposals (note 37)	(15,296)	-	(15,296)
Impaired during the year (note 42)	(40,500)	-	(40,500)
Transferred to investment properties (note 13(d))	-	(450,266)	(450,266)
Foreign exchange effect	(2,803)	-	(2,803)
Balance at 31 December 2011	504,472	105,284	609,756

(c) The geographical analysis of properties held for sale as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**105,289**	492,487
Outside the U.A.E.	**119,620**	117,269
Total	**224,909**	609,756

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

13 Investment properties

(a) Movement in investment properties during the years ended 31 December 2012 and 2011 is as follows:

2012	Land AED'000	Other real estate AED'000	Investment properties under construction AED'000	Total AED'000
Cost:				
Balance at 1 January 2012	472,072	1,081,049	450,266	2,003,387
Additions	23,382	337,153	32,815	393,350
Transferred from properties held for sale (note 13 (d))	339,811	69,763	187,316	596,890
Disposal	-	(27)	-	(27)
Eliminated on loss of control in subsidiaries (note 17 (d))	-	(585,266)	-	(585,266)
Foreign exchange effect	-	8,990	-	8,990
Other	-	11,100	-	11,100
Balance at 31 December 2012	835,265	922,762	670,397	2,428,424
Accumulated depreciation and impairment:				
Balance at 1 January 2012	-	218,182	-	218,182
Depreciation charged for the year	-	31,351	-	31,351
Impairment losses recognized (note 42)	-	31,000	-	31,000
Foreign exchange effect	-	942	-	942
Transferred from properties held for sale (note 13 (d))	150,888	24,884	39,369	215,141
Balance at 31 December 2012	150,888	306,359	39,369	496,616
Carrying amount at 31 December 2012	684,377	616,403	631,028	1,931,808

2011 (Restated)				
Cost:				
Balance at 1 January 2011	1,223,131	872,977	-	2,096,108
Additions	45,508	219,378	-	264,886
Transferred from properties held for sale (note 13 (d))	-	-	450,266	450,266
Disposals	(787,513)	-	-	(787,513)
Foreign exchange effect	-	(11,306)	-	(11,306)
Other	(9,054)	-	-	(9,054)
Balance at 31 December 2011	472,072	1,081,049	450,266	2,003,387
Accumulated depreciation and impairment:				
Balance at 1 January 2011	-	173,197	-	173,197
Depreciation charged for the year	-	24,205	-	24,205
Impairment losses recognized (note 42)	-	19,401	-	19,401
Foreign exchange effect	-	1,379	-	1,379
Balance at 31 December 2011	-	218,182	-	218,182
Carrying amount at 31 December 2011	472,072	862,867	450,266	1,785,205

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

13 Investment properties (continued)

(b) During the year ended 31 December 2011, disposal of investment properties includes a sale of plots of land amounting to AED 784.9 million. Effective 30 December 2011, the Bank entered into a sale and purchase agreement to sell investment properties with a carrying value of AED 784.9 million. The salient terms and conditions of the sales and purchase agreement are as follows:

- The sales consideration is receivable on or before 30 December 2016;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the buyer. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof, must be of equal value (as verified by an independent real estate consultant jointly appointed by the buyer and the seller) to the amount due and payable under the agreement; and
- The commitments on the remaining original purchase price for the plots of land remain with the Bank.

The net sales consideration has been determined as follows:

	2011 AED'000 (Restated)
Sales consideration receivable on or before 30 December 2016	1,062,757
Deferred income on the assumption that settlement is on 30 December 2016	(277,902)
Net sales consideration	784,855
Less: Carrying value of the investment properties	(784,855)
Gain recognized on sales of investment properties	-

(c) The geographical analysis of investment properties as of 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.		
Land	**783,532**	420,339
Other real estate	**405,027**	572,501
Investment properties under construction	**670,397**	450,266
	1,858,956	1,443,106
Outside the U.A.E.		
Land	**51,733**	51,733
Other real estate	**517,735**	508,548
	569,468	560,281
Total cost	**2,428,424**	2,003,387
Less: Accumulated depreciation and impairment	**(496,616)**	(218,182)
Total carrying amount	**1,931,808**	1,785,205

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

13 Investment properties (continued)

(d) Transfer from properties held for sale during the year ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Land	**339,811**	-
Other real estate	**69,763**	-
Investment properties under construction	**187,316**	450,266
Total cost (note 13 (a))	**596,890**	450,266
Less: Accumulated impairment (note 13 (a))	**(215,141)**	-
Total carrying amount (note 12 (b))	**381,749**	450,266

(e) The fair value of the Bank's investment properties as at 31 December 2012 is AED 3.0 billion (2011 (Restated): AED 2.4 billion).

The Bank has carried out internal valuation of these properties as at 31 December 2012 and 2011. The valuation were based on a present value calculation of the estimated future cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The profit rate, which is used to calculate the present value of the future cash flows, reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date compared with estimated current market rent, as well as changes in occupancy rates and property costs.

(f) Investment properties include properties amounting AED 433.2 million (2011 (Restated): AED 443.2 million) have been mortgaged by one of the Bank's entities as a security financing obligation to another bank.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

14 Receivables and other assets

(a) The analysis of the Bank's receivables and other assets as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Due from customers (note 14(b))	**889,000**	857,951
Receivables on sale of investment properties, net	**833,908**	784,855
Acceptances	**679,425**	656,263
Other income receivable	**151,538**	201,347
Clearing receivables	**78,664**	107,344
Prepaid expenses	**78,090**	72,954
Trade receivables	**45,818**	55,164
Fair value of Islamic derivatives (note 48 (a))	**41,288**	65,996
Due from employees	**31,692**	26,778
Advances to contractors	**18,169**	39,147
Inventories	**9,877**	8,874
Deferred tax asset (note 23(b))	**9,749**	19,297
Cheques sent for collection	**1,233**	16,863
Other	**160,463**	189,057
	3,028,914	3,101,890
Less: Provision for impairment	**(108,616)**	(51,200)
Total	**2,920,298**	3,050,690

(b) Due from customers represent overdrawn current accounts and other accounts that are not meeting the definition of Islamic financing and investing assets. The balances are stated net of provision for impairment amounting to AED 473.0 million (2011 (Restated): AED 470.0 million). The Bank holds collaterals amounting to AED 951.0 (2011 (Restated): AED 1,012.0 million) against these accounts.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

15 Property and equipment

2012

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress* AED'000	Total AED'000
Cost:							
Balance at 1 January 2012	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Additions	5,808	1,850	8,787	7,079	475	56,868	80,867
Disposals	(83)	(3)	(1,242)	(1,257)	(644)	-	(3,229)
Written off	-	-	(4,446)	(208)	-	-	(4,654)
Transfers	21,793	-	5,673	22,822	-	(50,288)	-
Exchange adjustments	(141)	(330)	(5,007)	(3,146)	(73)	(259)	(8,956)
Balance at 31 December 2012	443,435	85,580	387,035	447,181	3,388	29,092	1,395,711
Accumulated depreciation:							
Balance at 1 January 2012	65,247	64,253	305,343	312,549	2,881	-	750,273
Charge for the year	22,656	3,549	31,795	40,970	226	-	99,196
Disposals	(27)	(2)	(1,073)	(974)	(634)	-	(2,710)
Written off	-	-	(4,232)	(163)	-	-	(4,395)
Exchange adjustments	-	(133)	(2,281)	(1,542)	(54)	-	(4,010)
Balance at 31 December 2012	87,876	67,667	329,552	350,840	2,419	-	838,354
Carrying amount							
Balance at the end of the year	355,559	17,913	57,483	96,341	969	29,092	557,357

* Capital work in progress comprises cost incurred on information technology projects and civil work for branch network.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

15 Property and equipment (continued)

2011 (Restated)

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress* AED'000	Total AED'000
Cost:							
Balance at 1 January 2011	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Additions	1,446	165	12,326	6,970	154	37,077	58,138
Disposals	-	-	(6,025)	(8,658)	(442)	-	(15,125)
Written off	-	-	(205)	(599)	-	(4,604)	(5,408)
Transfers	15,926	-	3,291	15,476	-	(34,693)	-
Exchange adjustments	(99)	(230)	(3,025)	(1,670)	(50)	(84)	(5,158)
Balance at 31 December 2011	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Accumulated depreciation:							
Balance at 1 January 2011	44,282	60,605	272,383	265,726	3,154	-	646,150
Charge for the year	20,965	3,729	39,407	56,007	205	-	120,313
Disposals	-	-	(5,307)	(8,657)	(442)	-	(14,406)
Written off	-	-	(87)	-	-	-	(87)
Exchange adjustments	-	(81)	(1,053)	(527)	(36)	-	(1,697)
Balance at 31 December 2011	65,247	64,253	305,343	312,549	2,881	-	750,273
Carrying amount							
Balance at the end of the year	350,811	19,810	77,927	109,342	749	22,771	581,410

* Capital work in progress comprises cost incurred on information technology projects and civil work for branch network.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

16 Investments in joint ventures

(a) Details of the Bank's joint ventures (the "Joint Ventures" or "JVs") as at 31 December 2012 and 2011 are as follows:

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2012	Percentage of equity 2011
1.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	50%	50%
2.	Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50%	50%
3.	Al Rimal Development	Property development	U.A.E.	50%	50%
4.	Gulf Tankers L.L.C. (under liquidation)	Cargo and transport	U.A.E.	50%	50%

(b) The following amounts are included in the Bank's consolidated financial statements as a result of the proportionate consolidation of the joint ventures as at 31 December 2012 and 2011.

	2012 AED'000	2011 AED'000 (Restated)
Cash and balances with central banks	**77**	273
Other investments	**1,091**	763
Properties held for sale	**47,813**	47,808
Receivables and other assets	**18,709**	17,961
Property and equipment	**3,430**	3,952
Total assets	**71,120**	70,757
Total liabilities	**26,176**	30,813
Profit for the year	**13,506**	13,917

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

17 Subsidiaries

(a) The Bank's interest held directly or indirectly in the subsidiaries is as follows:

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2012	2011
1.	DIB Capital Limited	Investments and financial services	U.A.E.	95.5%	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
3.	Tamweel P.J.S.C.	Financing and investment	U.A.E	58.3%	58.3%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
6.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
7.	Emirates Automotive Leasing Company (dormant company)	Trading in motor vehicles	U.A.E.	100.0%	100.0%
8.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	100.0%
9.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
10.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
11.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
12.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
13.	Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
14.	Petra Limited	Investments	Cayman Islands	100.0%	100.0%
15.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
16.	Tamweel Funding Limited	Sukuk	Jersey	58.3%	58.3%
17.	Tamweel Sukuk Limited	Sukuk	Cayman Islands	58.3%	58.3%
18.	Tamweel ESOT Limited	Employees share options	British Virgin Islands	58.3%	58.3%
19.	Tamweel Properties & Investments L.L.C	Real estate development	U.A.E	58.3%	58.3%
20.	Tahfeez Middle East Limited	General trading	U.A.E	58.3%	58.3%
21.	Emirates REIT Management Private Limited	Properties management	U.A.E	*	60.0%
22.	Emirates REIT CIEC	Real Estate Fund	U.A.E	**	63.7%
23.	Millennium Capital Holding P.S.C.	Financing & investing	U.A.E.	***	95.5%
24.	Al Ahlia Aluminum Company L.L.C.	Aluminum fixtures	U.A.E.	***	75.5%

* The Bank diluted its share in Emirates REIT Management Private Limited from 60% to 25%. Accordingly, the entity was reclassified from a subsidiary to an associate during the year ended 31 December 2012 due to the loss of control.

** The Bank diluted its holding share in Emirates REIT CIEC (the "Fund") from 63.7% to 36.2% which resulted in a loss of control and as the Bank does not have any significant influence over the Fund, the Fund was reclassified from a subsidiary to an investment measured at fair value through other comprehensive income (FVTOCI) during the year ended 31 December 2012.

*** Al Ahlia Aluminum Company L.L.C. and Millennium Capital Holding P.S.C. were liquidated during the year ended 31 December 2012.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

17 Subsidiaries (continued)

(b) The following Special Purpose Vehicles ("SPV") were formed to manage specific transactions including funds, and are expected to be closed upon completion of transactions.

	SPV	Principal activity	Country of incorporation	Percentage of equity 2012	2011
25.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
26.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
27.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
28.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
29.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
30.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
31.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
32.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
33.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
34.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
35.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
36.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
37.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
38.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
39.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
40.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
41.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
42.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
43.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
44.	Bulwark Investments L.L.C.	Investments	U.A.E.	*	99.0%
45.	Optimum Investments L.L.C.	Investments	U.A.E.	*	99.0%
46.	Rubicon Investments L.L.C.	Investments	U.A.E.	*	99.0%
47.	Osiris Investments L.L.C.	Investments	U.A.E.	*	99.0%
48.	Lotus Investments L.L.C.	Investments	U.A.E.	*	99.0%
49.	Premiere Investments L.L.C.	Investments	U.A.E.	*	99.0%
50.	Landmark Investments L.L.C.	Investments	U.A.E.	*	99.0%
51.	Blackstone Investments L.L.C.	Investments	U.A.E.	*	99.0%
52.	Momentum Investments L.L.C.	Investments	U.A.E.	*	99.0%

* The SPVs' were liquidated during the year ended 31 December 2012.

(c) In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 6, 11, 12, 41, 42 and 43 are also beneficially held by the Bank through nominee arrangements.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

17 Subsidiaries (continued)

(d) Analysis of assets and liabilities over which control was lost at the date of derecognition:

	2012 AED'000
Investment properties (note 13 (a))	**585,266**
Other	**179,211**
Total assets	**764,477**
Due to banks and financial institutions	**(235,744)**
Other	**(166,697)**
Total liabilities	**(402,441)**
Non-controlling interest	**(180,605)**
Net assets disposed of (note 17 (e))	**181,431**

(e) Gain recognized on loss of control of subsidiaries during the year ended 31 December 2012:

	2012 AED'000
Fair value of investments retained	**184,806**
Less: Net assets disposed of (note 17 (d))	**(181,431)**
Gain recognized	**3,375**

18 Customers' deposits

(a) The analysis of the Bank's customers' deposits as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current accounts	**17,831,454**	17,784,560
Saving accounts	**11,271,332**	10,848,614
Investment deposits	**37,350,634**	35,912,221
Margin accounts	**169,007**	192,765
Depositors' share of profit payable (note 18(d))	**113,676**	158,522
Depositors' investment risk reserve (note 18 (c))	**64,749**	33,157
Total	**66,800,852**	64,929,839

(b) Analysis of customers' deposits by geography as at 31 December 2012 and 2011 are as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**64,215,263**	63,069,252
Outside the U.A.E.	**2,585,589**	1,860,587
Total	**66,800,852**	64,929,839

18 Customers' deposits (continued)

(c) Depositors' investment risk 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 Sharia'a Supervisory Board. Zakat on depositors' investment risk reserve is included under Zakat payable.

Movement of depositors' investment risk reserve during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**33,157**	387
Zakat for the year (note 24)	**(1,713)**	(877)
Net transfer from depositors' share of profit during the year (note 18(d))	**33,305**	33,647
Balance at 31 December(note 18 (a))	**64,749**	33,157

(d) Movement of depositors' share of profit payable during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Depositors' share of profit for the year (note 43)	**612,542**	699,941
Net transfer to depositors' investment risk reserve (note 18 (c))	**(33,305)**	(33,647)
	579,237	666,294
Less: Amount paid during the year	**(465,561)**	(507,772)
Balance at 31 December(note 18 (a))	**113,676**	158,522

19 Due to banks and financial institutions

(a) The analysis of the Bank's due to banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current accounts	**344,963**	218,294
Investment deposits	**5,813,326**	3,834,139
Total	**6,158,289**	4,052,433

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

19 Due to banks and financial institutions (continued)

(b) The geographical analysis of the Bank's due to banks and financial institutions as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Within the U.A.E.	**5,521,929**	3,879,534
Outside the U.A.E.	**636,360**	172,899
Total	**6,158,289**	4,052,433

20 Sukuk financing instruments

(a) The analysis of the Bank's sukuk financing instruments as at 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Sukuk financing instruments issued by the Bank (note 20(b))	**1,836,500**	2,357,075
Sukuk financing instruments issued by a subsidiary (note 20 (c))	**2,837,460**	1,816,908
Total	**4,673,960**	4,173,983

(b) In May 2012, the Bank, through a Sharia'a compliant financing arrangement, established a Trust Certificate Issuance Programme for USD 2,500 million (the "Programme"). As part of the Programme, the first series of the trust certificates amounting to USD 500 million (AED 1,836.5 million) were issued and listed on Irish Stock Exchange on 30 May 2012.

The terms of the Programme include transfer of certain identified assets (the "Co-Owned Assets") including original leased and musharakat assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to DIB Sukuk Limited, Cayman Islands (the "Issuer"). These assets are under the control of the Bank and shall continue to be serviced by the Bank.

The Issuer will pay the semi-annually distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annually distribution amount payable to the sukuk holders on the semi-annually distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at the exercise price.

These sukuk financing instruments mature in May 2017 and is expected to pay profit to the investors semiannually based on variable rate of 6 months LIBOR + 3.65% per annum.

Previously issued sukuk financing instruments amounting to AED 2,357 million were settled in March 2012.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

20 Sukuk financing instruments (continued)

(c) In July 2008, a subsidiary of the Bank issued Sharia'a compliant, non-convertible sukuk in the form of Trust Certificates for the total value of AED 1,100 million (at an expected profit rate of 3 months EIBOR + 0.225% per annum) and convertible sukuk for a total value of USD 300 million (at an expected profit rate of 4.31% per annum), which are listed on NASDAQ Dubai. In accordance with the terms of the subscription, each Trust Certificate may be redeemed at the option of the Certificate holder or the subsidiary as follows:

- At the option of the Certificate holder through "Voluntary Early Redemption" at any time one year after the issue date subject to satisfying certain conditions;
- At the option of the subsidiary at any time 3 years after the issue date through "Optional Partial Redemption" subject to satisfying certain condition.

In both the options, the subsidiary will either issue the share of the subsidiary at the relevant exchange price or cash will be paid. At the time of final maturity in 2013, any remaining Trust Certificates will be redeemed in full by a subsidiary in cash at face value plus any unpaid realized profit amount.

In January 2012, a subsidiary issued Trust Certificates of US$ 300 million (at a profit rate of 5.15% per annum payable semi-annually in arrears). These sukuk are listed on the Irish Stock Exchange, and are structured to conform to principles of Islamic Sharia'a and mature in 2017.

21 Medium term wakala finance

(a) The Bank opted to re-categorise wakala deposits received in 2008 from UAE Ministry of Finance amounting to AED 3.8 billion to Tier 2 qualifying finance ("Tier 2 finance"). The conversion process has been approved by the Shareholders in the Extraordinary General Meeting held in April 2009. The wakala deposits provided by the UAE Ministry of Finance (the Muwakkil) to the Bank (the Wakeel) will be used for investments for a tenor of seven years commencing from the date of re-categorisation and will mature in December 2016. Wakala expected profit will be paid every three months that is expected to be in the range of 4.00% to 5.25% per annum.

(b) In accordance with the terms of wakala agreement, the Muwakkil's rights and claims on the Wakeel in respect of wakala are wholly subordinated to the rights and claims of all other non-subordinated creditors.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

22 Payables and other liabilities

	2012 AED'000	2011 AED'000 (Restated)
Acceptances payable	**679,425**	656,263
Trade payables	**450,739**	449,174
Accruals and other provisions	**267,665**	267,051
Investments related payable	**293,585**	293,585
Bankers cheques	**239,282**	155,661
Payable for properties	**230,473**	240,933
Sundry deposits	**193,814**	377,468
Depositors' and sukuk holders' share of profit payable (note 22(a))	**143,915**	100,936
Provision for employees' end-of-service benefits (note 22(b))	**124,714**	110,152
Vendor payable for Islamic financing and investing assets	**117,291**	55,778
Clearing payable	**70,125**	93,243
Payable to contractors	**54,392**	53,527
Transaction amanat accounts	**41,521**	39,501
Unclaimed dividends	**35,610**	35,651
Fair value of Islamic derivative liabilities (note 48 (a))	**27,963**	23,897
Deferred income	**22,841**	24,421
Fund transfer and remittances	**19,921**	31,734
Directors' remuneration payable	**5,350**	5,350
Provision for taxation (note 23(a))	**3,590**	5,346
Other	**233,412**	365,162
Total	**3,255,628**	3,384,833

(a) Movement of the depositors' and sukuk holders share of profit payable during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Depositors' share of profits from:		
Wakala and other investment deposits from banks (note 43)	**521,624**	560,788
Profit accrued on sukuk financing instruments (note 43)	**182,039**	126,079
Less: Paid during the year	**(559,748)**	(585,931)
Balance at 31 December	143,915	100,936

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

22 Payables and other liabilities (continued)

(b) Movement of provision for employees' end-of-service benefits during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	110,152	101,737
Charged during the year (note 39)	19,268	19,248
Paid during the year	(4,706)	(10,833)
Balance at 31 December	124,714	110,152

23 Taxation

(a) Provision for taxation movement during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	5,346	3,623
Charged during the year (note 23 (c))	3,941	7,740
Paid during the year	(5,652)	(6,017)
Foreign exchange effect	(45)	-
Balance at 31 December (note 22)	3,590	5,346

(b) Deferred tax asset movement during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	19,297	19,300
(Reversed)/charged during the year (note 23 (c))	(8,860)	958
Foreign exchange effect	(688)	(961)
Balance at 31 December (note 14 (a))	9,749	19,297

(c) The analysis of income tax expense charged during the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Current taxation (note 23(a))	3,941	7,740
Deferred taxation (note 23(b))	8,860	(958)
Total	12,801	6,782

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

24 Zakat payable

The analysis of Zakat payable by the Bank on shareholders' behalf for the years ended 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Zakat charged to the consolidated statement of changes of equity	163,541	152,244
Zakat adjustment related to previous years	(2,446)	-
Zakat accounted and paid by other subsidiaries	(1,683)	(11,668)
Shareholders' Zakat for the year payable by the Bank	159,412	140,576
Zakat adjustment related to previous years	2,447	(425)
Zakat accounted and paid by subsidiaries on behalf of the Bank	-	(19,952)
Net Zakat payable by the Bank on shareholders' behalf	161,859	120,199
Zakat on depositors' investment risk reserve (note 18 (c))	1,713	877
Total Zakat payable	**163,572**	121,076

25 Share capital

As at 31 December 2012, 3,797,054,290 authorised ordinary shares of AED 1 each (2011 (Restated): 3,797,054,290 ordinary shares of AED 1 each) were fully issued and paid up.

26 Other reserves

(a) The movement of the other reserves during the years ended 31 December 2012 and 2011 is as follows:

	Statutory reserve AED'000	General reserve AED'000	Donated land reserve AED'000	Total AED'000
Balance at 1 January 2011 (Restated)	2,731,879	2,350,000	276,139	5,358,018
Disposal of donated land	-	-	(9,054)	(9,054)
Balance at 31 December 2011 (Restated)	2,731,879	2,350,000	267,085	5,348,964
Balance at 31 December 2012	**2,731,879**	**2,350,000**	**267,085**	**5,348,964**

(b) Statutory reserve:

Article 192 of the U.A.E. 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 other than in circumstances stipulated by law.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the current reserve exceeds 50% of the paid up capital of the Bank.

26 Reserves (continued)

(c) General reserve:

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

(d) Donated land reserve:

The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties as they are held for capital appreciation purpose.

27 Investments fair value reserve

	2012 AED'000	2011 AED'000 (Restated)
Balance at 1 January	**(831,849)**	(243,166)
Effect of the change in accounting policy for classification and measurement of financial assets – IFRS 9 (note 54.1)	-	(441,973)
Net unrealised gain/(loss) on other investments carried at FVTOCI	**11,719**	(146,724)
Reclassification of realised loss on disposal of other investments carried at FVTOCI	-	14
Balance at 31 December	**(820,130)**	(831,849)

28 Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

29 Dividend paid and proposed

(a) The Board of Directors has proposed 15% cash dividend at their meeting held on 4 February 2013.

(b) For the year ended 31 December 2011, the shareholders approved and paid a cash dividend of AED 0.125 per share (total dividend AED 474.63 million) at the Annual General Meeting held on 20 March 2012. For the year ended 31 December 2010, the shareholders approved and paid a cash dividend of AED 0.100 per share (total dividend AED 379.71 million) at the Annual General Meeting held on 31 March 2011.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

30 Non-controlling interests

Non-controlling 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.

31 Contingent liabilities and commitments

(a) The analysis of contingent liabilities and commitments as of 31 December 2012 and 2011 is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Contingent liabilities:		
Letters of guarantee	**7,800,921**	7,510,949
Letters of credit	**1,962,295**	2,081,825
Total contingent liabilities	**9,763,216**	9,592,774
Commitments:		
Capital expenditure commitments	**267,571**	316,575
Irrevocable undrawn facilities commitments	**10,393,008**	8,756,501
Total commitments	**10,660,579**	9,073,076
Total contingent liabilities and commitments	**20,423,795**	18,665,850

(b) Financing-related financial instruments (contingent liabilities):

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

Commitments to extend Islamic 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 utilized, the total contract amounts do not necessarily represent future cash requirements. Standby letters of credit and guarantees 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.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

32 Income from Islamic financing and investing assets

	2012 AED'000	2011 AED'000 (Restated)
Islamic financing assets		
Vehicles murabahat	382,178	443,779
Commodities murabahat	265,498	306,844
Real estate murabahat	173,638	223,674
International murabahat	7,843	7,839
Total murabahat income	829,157	982,136
Home finance Ijarah	616,161	590,884
Other Ijarah	507,135	449,692
Salam finance	436,718	264,979
Istisna'a	318,122	449,051
Total income from Islamic financing assets	2,707,293	2,736,742
Islamic Investing assets		
Musharakat	356,655	458,902
Mudarabat	149,429	200,455
Wakalat	73,059	52,407
Total income from Islamic investing assets	579,143	711,764
Total income from Islamic financing and investing assets	3,286,436	3,448,506

Income from financing and investing assets is presented net of forfeited income of AED 2.4 million (2011 (Restated): AED 4.2 million).

33 Income from international murabahat and wakala, short term

	2012 AED'000	2011 AED'000 (Restated)
Income from International murabahat with central banks	33,582	59,100
Income from Investment and wakala deposits	17,093	17,326
Income from International murabahat from banks and financial institutions	4,684	6,707
Total	55,359	83,133

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

34 Gain from other investments, net

	2012 AED'000	2011 AED'000 (Restated)
Realized gain on disposal of investments in Islamic sukuk	37,058	712
Dividend income and other returns from investments measured at FVTOCI	19,775	32,421
Realized gain on disposal of investments measured at FVTPL	1,514	3,186
Dividend income from investments designated at FVTPL	1,258	3,258
Unrealized gain/(loss) on revaluation of investments measured at FVTPL	313	(541)
Total	59,918	39,036

Dividend income is presented net of forfeited income of AED 4.2 million (2011 (Restated): AED 3.4 million).

35 Commissions, fees, and foreign exchange income

	2012 AED'000	2011 AED'000 (Restated)
Trade related commission and fees	243,273	188,966
Asset and wealth management related fees	51,245	48,747
Other commissions and fees	361,025	352,644
Foreign exchange income	76,447	89,042
Fair value of Islamic derivatives	1,375	10,532
Cumulative gains on hedging reserve reclassified to profit or loss	-	10,656
Total	733,365	700,587

36 Income from investment properties

Income from investment properties represents the net rental income recognized by the Bank from its investment properties during the years ended 31 December 2012 and 2011, and is presented net of forfeited income of AED 0.2 million (2011 (Restated): AED 0.2 million).

37 Income from properties held for sale, net

	2012 AED'000	2011 AED'000 (Restated)
Sales proceeds	27,341	30,686
Cost of sale (note 12(b))	(12,218)	(15,296)
Total	15,123	15,390

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

38 Other income

	2012 AED'000	2011 AED'000 (Restated)
Services income, net	62,991	65,402
Gain on disposal of associates (note 11 (h))	4,791	-
Gain on sale of property and equipment	351	245
Other	88,316	65,190
Total	156,449	130,837

39 Personnel expenses

	2012 AED'000	2011 AED'000 (Restated)
Salaries, wages and other benefits	895,018	887,982
Staff terminal benefits (note 22 (b))	19,268	19,248
Share based payments	551	1,653
Total	914,837	908,883

40 General and administrative expenses

	2012 AED'000	2011 AED'000 (Restated)
Premises and equipment maintenance costs	136,187	108,386
Administrative expenses	83,894	90,977
Rental charges under operating leases	71,597	67,682
Communication costs	68,755	61,672
Printing and stationery	7,024	8,873
Other operating expenses	109,496	105,506
Total	476,953	443,096

41 Impairment loss on financial assets, net

	2012 AED'000	2011 AED'000 (Restated)
Net provision for Islamic financing assets	769,323	666,703
Net provision for Islamic investing assets	115,071	310,597
Net provision for receivables and other assets	88,239	17,664
Total	972,633	994,964

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

42 Impairment loss on non-financial assets, net

	2012 AED'000	2011 AED'000 (Restated)
Impairment of investment in associates (note 11(e))	**33,495**	3,128
Impairment of investment properties (note 13 (a))	**31,000**	19,401
Impairment of properties held for sale (note 12 (b))	**6,000**	40,500
Impairment of goodwill	**-**	17,258
Impairment of investment in joint venture	**-**	11,661
Total	**70,495**	91,948

43 Depositors' and sukuk holders share of profit

	2012 AED'000	2011 AED'000 (Restated)
Investment and savings deposits from customers (note 18 (d))	**612,542**	699,941
Wakala and other investment deposits from banks (note 22(a))	**521,624**	560,788
Profit accrued on sukuk financing instruments (note 22(a))	**182,039**	126,079
Total	**1,316,205**	1,386,808

44 Basic and diluted earnings per share

(a) Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to equity holders of the Bank, net of directors' remuneration by the weighted average number of shares outstanding during the year as follows:

	2012	2011 (Restated)
Profit for the year attributable to equity holders of the Bank (AED'000)	**1,150,072**	1,010,141
Less: Directors' remuneration (AED'000)	**(5,350)**	(5,350)
	1,144,722	1,004,791
Weighted average number of shares outstanding during the year ('000)	**3,797,054**	3,797,054
Basic and diluted earnings per share (AED per share)	**AED 0.30**	AED 0.26

(b) As of the reporting date, the diluted earnings per share is equal to the basic earnings per share as the Bank has not issued any financial instruments that should be taken into consideration when the diluted earnings per share is calculated.

45 Cash and cash equivalents

	2012 AED'000	2011 AED'000 (Restated)
Cash and balances with the central banks (note 6 (a))	**15,473,549**	12,952,319
Due from banks and financial institutions (note 7 (b))	**3,169,114**	3,043,096
	18,642,663	15,995,415
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(8,222,357)**	(6,521,845)
Balance at 31 December	**10,420,306**	9,473,570

46 Related party transactions

(a) The Bank enters into arms length transactions with shareholders, associates, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates.

(b) Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

(c) The significant balances outstanding at 31 December 2012 and 2011 in respect of related parties included in these consolidated financial statements are as follows:

	Major Shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2012				
Islamic financing and investing assets	**1,469,201**	**61,038**	**430,327**	**1,960,566**
Customers' deposits	**1,884,551**	**83,198**	**35,174**	**2,002,923**
Income from Islamic financing and investing assets	**42,608**	**5,383**	**22,301**	**70,292**
Depositors' share of profits	**54,646**	**1,982**	**372**	**57,000**
Contingent liabilities	-	**6**	**14,793**	**14,799**
2011 (Restated)				
Islamic financing and investing assets	612,167	34,468	390,000	1,036,635
Customers' deposits	2,676,188	132,076	80,272	2,888,536
Income from Islamic financing and investing assets	37,823	2,384	24,178	64,385
Depositors' share of profits	82,820	23,464	1,741	108,025
Contingent liabilities	-	8	700	708

(d) No impairment allowances have been recognized against financing and investing assets extended to related parties or contingent liabilities issued in favor of related parties during the years ended 31 December 2012 and 2011.

(e) The compensation paid to key management personnel of the Bank is as follows:

	2012 AED'000	2011 AED'000 (Restated)
Salaries and other benefits, including directors' remuneration	**20,779**	26,205
Employee terminal benefits	**3,233**	1,889

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

47 Segmental information

Reportable segments

(a) Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Bank's reporting segments are organised into five major business segments as follows:

- Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, Ijarah, islamic card and funds transfer facilities and trade finance facilities.
- Corporate and investment banking:	Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.
- Real estate:	Property development and other real estate investments.
- Treasury:	Principally responsible for managing the Bank's overall liquidity and market risk and provide treasury services to customers. Treasury also run its own Islamic Sukuk portfolio and specialise financial instruments book to manage the above risk.
- Other:	Functions other than above core lines of businesses.

(b) The accounting policies of the reportable segments are the same as the Bank's accounting policies described in note 4 to these consolidated financial statements.

(c) Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

(d) Segment profit represents the profit earned by each segment without allocation of income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

47 Segmental information (continued)

Reportable segments **(continued)**

(e) The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December:

	Retail and business banking		Corporate and investment banking		Real estate		Treasury		Other		Total	
	2012 AED'000	2011 AED'000 (Restated)	**2012 AED'000**	2011 AED'000 (Restated)	**2012 AED'000**	2011 AED'000 (Restated)	**2012 AED'000**	2011 AED'000 (Restated)	**2012 AED'000**	2011 AED'000 (Restated)	**2012 AED'000**	2011 AED'000 (Restated)
Net operating revenue *	**1,918,144**	1,835,901	**1,030,625**	1,227,434	**(51,252)**	(164,353)	**504,036**	461,320	**308,566**	257,753	**3,710,119**	3,618,055
Share of profit /(loss) of associates	**-**	-	**60,301**	37,723	**-**	(9,172)	**-**	-	**-**	-	**60,301**	28,551
Operating expense	**(1,053,903)**	(1,047,377)	**(243,587)**	(243,176)	**(89,005)**	(81,351)	**(21,057)**	(21,689)	**(114,785)**	(102,904)	**(1,522,337)**	(1,496,497)
Impairment loss	**(286,439)**	(247,764)	**(750,219)**	(837,957)	**-**	-	**-**	-	**(6,470)**	(1,191)	**(1,043,128)**	(1,086,912)
Profit for the year before income tax	**577,802**	540,760	**97,120**	184,024	**(140,257)**	(254,876)	**482,979**	439,631	**187,311**	153,658	**1,204,955**	1,063,197
Income tax expense											**(12,801)**	(6,782)
Profit for the year											**1,192,154**	1,056,415

* Operating revenue is reported net as management primarily relies on net operating revenue as a performance measure, not the gross operating income and expense.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

47 Segmental information (continued)

***Reportable segments* (continued)**

(f) The following table presents assets, liabilities and equity regarding the Bank's business segments:

	Retail and business banking		Corporate and investment banking		Real estate		Treasury		Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Segment assets	**25,178,723**	23,916,930	**35,872,768**	31,791,056	**3,650,150**	3,874,977	**12,511,922**	13,940,058	**18,151,136**	17,065,443	**95,364,699**	90,588,464
Segment liabilities and equity	**48,779,670**	47,519,470	**21,877,534**	20,893,587	**448,184**	897,844	**11,714,777**	8,716,516	**12,544,534**	12,561,047	**95,364,699**	90,588,464
Capital expenditure	**24,260**	17,441	**24,260**	17,441	**-**	-	**16,174**	11,628	**16,173**	11,628	**80,867**	58,138

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

47 Segmental information (continued)

Geographical information

(g) Although the management of the Bank is based primarily on business segments, the Bank operates in two geographic markets: inside the U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international.

(h) The following table show the distribution of the Bank's external gross income and non–current assets allocated based on the location of the operating centres for the years ended 31 December 2012 and 2011:

	Gross income from external customers		Non-current assets *	
	2012 AED'000	2011 AED'000 (Restated)	2012 AED'000	2011 AED'000 (Restated)
Domestic	**4,622,379**	4,608,770	**1,958,115**	1,818,469
International	**464,246**	424,644	**531,050**	548,146
Total	**5,086,625**	5,033,414	**2,489,165**	2,366,615

* Non-current assets exclude financial instruments, investments in associates and deferred tax assets.

Revenue from major products and services

(i) Revenue from major products and services are disclosed in notes 32, 33, 34, 35, 36 and 37 to the consolidated financial statements.

48 Islamic derivatives financial instruments

(a) The table below shows the positive and negative fair values of Islamic derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of an Islamic derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of Islamic derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

48 Islamic derivatives financial instruments (continued)

2012

	Positive fair value (note 14) AED'000	Negative fair value (note 22) AED'000	Notional amount total AED'000	Notional amounts by term to maturity: Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 to 5 years AED'000	Over 5 years AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	29,830	27,963	12,018,647	4,656,381	7,362,266	-	-	-
Islamic profit rate Swaps	11,458	-	5,123,176	-	-	2,349,880	2,473,295	300,000
Total	41,288	27,963	17,141,823	4,656,381	7,362,266	2,349,880	2,473,295	300,000

2011 (Restated)

	Positive fair value (note 14) AED'000	Negative fair value (note 22) AED'000	Notional amount total AED'000	Notional amounts by term to maturity: Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 to 5 years AED'000	Over 5 years AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	27,164	23,897	7,486,069	1,924,071	5,561,998	-	-	-
Islamic profit rate Swaps	38,832	-	9,299,959	-	6,588,590	146,920	1,941,443	623,006
Total	65,996	23,897	16,786,028	1,924,071	12,150,588	146,920	1,941,443	623,006

(b) Disclosures concerning the fair value of Islamic derivatives are provided in risk management note below.

(c) The Bank has positions in the following types of Islamic derivatives:

- ***Unilateral Promise to buy/sell currencies***

  Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties and delivering the relevant currencies on spot basis.

- ***Islamic Swaps***

  Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

49 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

2012

	Less than one month AED'000	1 month to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	3,061,544	4,096,076	8,218,972	96,957	-	15,473,549
Due from banks and financial institutions	2,350,950	818,164	-	-	-	3,169,114
Islamic financing and investing assets, net	2,867,061	4,907,168	8,963,973	24,751,958	14,069,943	55,560,103
Investment in Islamic sukuk	23,853	22,104	2,187,964	7,998,864	855,877	11,088,662
Other investments	-	-	613,061	1,531,810	-	2,144,871
Investments in associates	-	-	-	-	2,294,028	2,294,028
Properties held for sale	-	-	-	224,909	-	224,909
Investment properties	-	-	-	-	1,931,808	1,931,808
Receivables and other assets	134,622	53,556	1,930,662	800,086	1,372	2,920,298
Property and equipment	7,414	15,491	82,872	118,533	333,047	557,357
Total assets	8,445,444	9,912,559	21,997,504	35,523,117	19,486,075	95,364,699
Liabilities and equity:						
Customers' deposits	6,910,322	9,214,219	28,266,824	22,330,684	78,803	66,800,852
Due to banks and financial institutions	586,651	173,229	3,249,659	2,148,750	-	6,158,289
Sukuk financing instruments	634,960	-	1,100,000	2,939,000	-	4,673,960
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Payables and other liabilities	1,239,873	1,129,317	392,053	493,683	702	3,255,628
Zakat payable	-	-	163,572	-	-	163,572
Equity	-	-	569,558	(820,130)	10,810,427	10,559,855
Total liabilities and equity	9,371,806	10,516,765	33,741,666	30,844,530	10,889,932	95,364,699

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

49 Maturity analysis of assets and liabilities (continued)

2011 (Restated)

	Less than one month AED'000	1 month to 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with central banks	2,353,995	5,081,320	5,517,004	-	-	12,952,319
Due from banks and financial institutions	2,529,596	513,500	-	-	-	3,043,096
Islamic financing and investing assets, net	4,205,901	3,201,254	8,847,308	21,965,054	13,287,532	51,507,049
Investment in Islamic sukuk	13	1,951	140,070	11,260,998	1,285,079	12,688,111
Other investments	-	-	586,761	1,447,628	-	2,034,389
Investments in associates	-	-	-	-	2,336,439	2,336,439
Properties held for sale	-	-	-	609,756	-	609,756
Investment properties	-	-	-	-	1,785,205	1,785,205
Receivables and other assets	791,417	88,028	1,287,912	847,489	35,844	3,050,690
Property and equipment	9,595	18,642	82,157	142,375	328,641	581,410
Total assets	9,890,517	8,904,695	16,461,212	36,273,300	19,058,740	90,588,464
Liabilities and equity:						
Customers' deposits	8,359,394	6,781,147	28,294,049	21,472,142	23,107	64,929,839
Due to banks and financial institutions	451,096	125,275	1,327,135	2,148,927	-	4,052,433
Sukuk financing instruments	-	2,357,074	-	1,816,909	-	4,173,983
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Pyabales and other liabilities	1,424,634	173,891	811,599	968,486	6,223	3,384,833
Zakat payable	-	-	121,076	-	-	121,076
Equity	-	-	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	10,235,124	9,437,387	30,933,564	29,327,158	10,655,231	90,588,464

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

50 Financial instruments classification

The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2012 and 2011:

2012	Fair value through OCI AED'000	Fair value through profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets				
Cash and balances with central banks	-	-	15,473,549	15,473,549
Due from banks and financial institutions	-	-	3,169,114	3,169,114
Islamic financing and investing assets, net	-	-	55,560,103	55,560,103
Investment in Islamic sukuk measured at amortised cost	-	-	11,088,662	11,088,662
Other investments	2,142,648	2,223	-	2,144,871
Receivables and other assets	-	41,288	2,763,125	2,804,413
	2,142,648	43,511	88,054,553	90,240,712
Financial liabilities				
Customers' deposits	-	-	66,800,852	66,800,852
Due to banks and financial institutions	-	-	6,158,289	6,158,289
Sukuk financing instruments	-	-	4,673,960	4,673,960
Medium term wakala finance	-	-	3,752,543	3,752,543
Payables and other liabilities	-	27,963	3,076,521	3,104,484
	-	27,963	84,462,165	84,490,128
2011 (Restated)				
Financial assets				
Cash and balances with central banks	-	-	12,952,319	12,952,319
Due from banks and financial institutions	-	-	3,043,096	3,043,096
Islamic financing and investing assets, net	-	-	51,507,049	51,507,049
Investment in Islamic sukuk measured at amortised cost	-	-	12,688,111	12,688,111
Other investments	1,981,402	52,987	-	2,034,389
Receivables and other assets	-	65,996	2,874,422	2,940,418
	1,981,402	118,983	83,064,997	85,165,382
Financial liabilities				
Customers' deposits	-	-	64,929,839	64,929,839
Due to banks and financial institutions	-	-	4,052,433	4,052,433
Sukuk financing instruments	-	-	4,173,983	4,173,983
Medium term wakala finance	-	-	3,752,543	3,752,543
Payables and other liabilities	-	23,897	3,221,017	3,244,914
	-	23,897	80,129,815	80,153,712

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

51 Fair value 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. Differences can therefore arise between book value under the historical cost method and fair value estimates.

(a) Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statement approximate their fair values.

	Carrying amount AED'000	Fair value AED'000
2012		
Financial assets:		
Investments in Islamic sukuk	**11,088,662**	**11,488,181**
2011 (Restated)		
Financial assets:		
Investments in Islamic sukuk	12,688,111	12,460,931

(b) Valuation techniques and assumptions applied for the purposes of measuring fair value

Valuation of financial instruments recorded at fair value, is based on quoted market prices and other valuation techniques.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on the present value calculation of the expected future cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

(c) Fair value measurements recognised in the consolidated statement of financial position

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities classified as other investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over the counter Islamic derivative arrangements. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

51 Fair value of financial instruments (continued)

(c) Fair value measurements recognised in the consolidated statement of financial position (continued)

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unquoted equity investments classified as other investments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The table below summarises the fair value of financial instruments of the Bank's financial instruments according to fair value hierarchy.

2012

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other investments measured at fair value				
Investments designated at fair value through profit or loss				
Quoted equity instruments	2,223	-	-	2,223
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	610,838	-	-	610,838
Unquoted equity instruments	-	-	990,577	990,577
Unquoted investment funds	-	-	541,233	541,233
Other assets				
Islamic derivative assets	-	41,288	-	41,288
Total financial assets measured at fair value	613,061	41,288	1,531,810	2,186,159
Other liabilities				
Islamic derivative liabilities	-	27,963	-	27,963

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

51 Fair value of financial instruments (continued)

(c) Fair value measurements recognised in the consolidated statement of financial position (continued)

2011 (Restated)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other investments measured at fair value				
Investments designated at fair value through profit or loss				
Quoted equity instruments	52,987	-	-	52,987
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	533,774	-	-	533,774
Unquoted equity instruments	-	-	1,092,820	1,092,820
Unquoted investment funds	-	-	354,808	354,808
Other assets				
Islamic derivative assets	-	65,996	-	65,996
Total financial assets measured at fair value	586,761	65,996	1,447,628	2,100,385
Other liabilities				
Islamic derivative liabilities	-	23,897	-	23,897

There were no transfers between Level 1 and 2 during the years ended 31 December 2012 and 2011.

(d) Reconciliation of Level 3 fair value measurement of financial assets measured at fair value through other comprehensive income

	2012 AED'000	2011 AED'000 (Restated)
Balance at1 January	**1,447,628**	-
IFRS 9 related adjustment	-	589,681
(Losses)/gains in other comprehensive income	**(74,025)**	25,971
Reclassified from investment in subsidiaries or associates	**183,265**	841,817
Purchased during the year	**4,591**	5,510
Disposed during the year	**(29,649)**	(15,351)
Balance at 31 December	**1,531,810**	1,447,628

52 Risk management

52.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his responsibilities.

The Bank is exposed to various risks including:
- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

52.1.1 Risk management structure

The Board of Directors, supported by the Risk Management Committee and Risk Management Department, is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Board Risk Management Committee

The Board Risk Management Committee has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

Risk Management Committee

The day-to-day management of risk has been delegated to Risk Management Committee which is headed by the Chief Executive Officer ("CEO").

The Risk Management Committee has the overall responsibility to support the Board Risk Management Committee for the development and formulation of the risk strategy, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee

Asset and Liability Management Committee ("ALCO") is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.1 Introduction (continued)

52.1.1 Risk management structure (continued)

Bank Internal Audit Department

Risk management processes throughout the Bank are audited periodically by the Bank Internal Audit Department which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit Bank Department comments the results of their assessments with management, and reports its findings and recommendations to the Bank's Audit Committee.

52.1.2 Risk measurement and reporting systems

The Bank measures risks using conventional qualitative methods for credit, market liquidity and operational risks. Further, the Bank also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Bank also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Board of Directors and management. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse the risk profile and identify early risks. This information is presented and explained to the management, management committees, Board Risk Management Committee, and the Risk Management Committee. Specialized reports are presented to the pertinent heads of business and are delivered with a frequency suited to the volatility of the risk. The report includes aggregate credit exposure, limit exceptions, liquidity, operational loss incidents and other risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

52.1.3 Risk mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including profit rate risk, foreign exchange risk, and equity price risk), and operational risks.

The Bank seeks to manage its credit risk exposures through diversification of financing and investing activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of liquid assets (i.e. cash and cash equivalents).

The market risks are managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

52 Risk management (continued)

52.1 Introduction (continued)

52.1.4 Risk concentration

Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

52.2 Credit risk

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and calibrated to the Bank's internal rating scale. The models are housed with the Moody's Risk Analyst rating tool.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate guarantees;
- Charges over business assets such as premises, machinery, vehicles and inventory; and
- Charges over financial instruments such as deposits and equity investments.

Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated financial position.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.2 Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfill certain obligations to other parties. This exposes the Bank to a similar risk to financing and investing assets and these are mitigated by the same control processes and policies.

52.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk by class of financial asset, including Islamic derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2012 AED'000	Gross maximum exposure 2011 AED'000 (Restated)
Balances with central banks	**13,741,965**	11,457,902
Due from banks and financial institutions	**3,169,114**	3,043,096
Islamic financing and investing assets	**59,259,525**	55,015,923
Investment in Islamic sukuk measured at amortised cost	**11,088,662**	12,688,111
Other investments	**2,144,871**	2,034,389
Receivables and other assets	**3,386,029**	3,470,764
	92,790,166	87,710,185
Contingent liabilities	**9,763,216**	9,592,774
Commitments	**10,660,579**	9,073,076
Total	**113,213,961**	106,376,035

52.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
2012			
The U.A.E.	**26,676,833**	**80,294,488**	**106,971,321**
Other Gulf Cooperation Council (GCC) countries	-	**2,172,038**	**2,172,038**
South Asia	**420,184**	**2,118,716**	**2,538,900**
Europe	**3,866**	**990,405**	**994,271**
Africa	-	**292,603**	**292,603**
Other	**70**	**244,758**	**244,828**
Total	**27,100,953**	**86,113,008**	**113,213,961**
2011 (Restated)			
The U.A.E.	25,789,737	74,954,896	100,744,633
Other Gulf Cooperation Council (GCC) countries	-	2,348,913	2,348,913
South Asia	456,910	1,796,895	2,253,805
Europe	-	139,223	139,223
Africa	-	119,629	119,629
Other	-	769,832	769,832
Total	26,246,647	80,129,388	106,376,035

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2012 AED'000	2011 AED'000 (Restated)
Financial Institutions	**24,893,794**	22,321,844
Real estate	**28,637,719**	28,754,558
Manufacturing and services	**16,879,112**	16,189,578
Consumer financing	**14,089,656**	13,022,023
Consumer home finance	**13,509,830**	12,555,511
Government	**9,606,045**	8,481,713
Trade	**5,597,805**	5,050,808
Total	**113,213,961**	106,376,035

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial Islamic financing and investing facilities, charges over real estate properties, inventory, leased assets and trade receivables, and
- For retail Islamic financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for Islamic financing and investing assets granted to their subsidiaries, but the benefits are not included in the above table.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.4 Credit quality per class of financial assets

2012	Balances with central banks and due from banks and financial institutions AED'000	Islamic financing and investing assets AED'000	Investments in Islamic sukuk and other investments AED'000	Receivables and other assets AED'000	Contingent liabilities and commitments AED'000	Total AED'000
Individually impaired						
Gross amount	-	6,118,079	-	1,295,434	-	7,413,513
Non-impaired exposures						
Neither past due nor impaired	16,911,079	47,783,732	13,233,533	2,036,740	20,423,795	100,388,879
Past due by less than 30 days	-	1,924,924	-	53,855	-	1,978,779
Past due by more than 30 days but less than 90 days	-	1,460,583	-	-	-	1,460,583
Past due by more than 90 days	-	1,972,207	-	-	-	1,972,207
Gross amount	16,911,079	53,141,446	13,233,533	2,090,595	20,423,795	105,800,447
Total gross maximum exposure	16,911,079	59,259,525	13,233,533	3,386,029	20,423,795	113,213,961
Allowances for impairment	-	(3,699,422)	-	(581,616)	-	(4,281,038)
Net carrying amount	16,911,079	55,560,103	13,233,533	2,804,413	20,423,795	108,932,923

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.4 Credit quality per class of financial assets (continued)

2011 (Restated)	Balances with central banks and due from banks and financial institutions	Islamic financing and investing assets	Investments in Islamic sukuk and other investments	Receivables and other assets	Contingent liabilities and commitments	Total
Individually impaired						
Gross amount	-	6,807,616	-	1,311,334	-	8,118,950
Non-impaired exposures						
Neither past due nor impaired	14,500,998	44,915,196	14,722,500	2,131,679	18,665,850	94,936,223
Past due by less than 30 days	-	1,145,235	-	27,751	-	1,172,986
Past due by more than 30 days but less than 90 days	-	877,080	-	-	-	877,080
Past due by more than 90 days	-	1,270,796	-	-	-	1,270,796
Gross amount	14,500,998	48,208,307	14,722,500	2,159,430	18,665,850	98,257,085
Total gross maximum exposure	14,500,998	55,015,923	14,722,500	3,470,764	18,665,850	106,376,035
Allowances for impairment	-	(3,508,874)	-	(521,200)	-	(4,030,074)
Net carrying amount	14,500,998	51,507,049	14,722,500	2,949,564	18,665,850	102,345,961

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.4 Credit quality per class of financial assets (continued)

Credit risk exposure of the Bank's financial assets for each internal risk rating

	Moody's equivalent grades	Total 2012 AED'000	Total 2011 AED'000 (Restated)
Low risk			
Risk rating class 1	Aaa	**17,230,877**	13,528,493
Risk rating classes 2 and 3	Aa1-A3	**18,491,785**	17,328,607
Fair risk			
Risk rating class 4	Baa1-Baa3	**20,499,230**	8,986,784
Risk rating classes 5 and 6	Ba1-B3	**33,555,932**	40,781,357
Risk rating class 7	Caa1-Caa3	**14,701,539**	16,158,030
High risk			
Risk rating classes 8 to11		**8,734,598**	9,592,764
		113,213,961	106,376,035

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

52.2.5 Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days (in line with the U.A.E. Central Bank guidelines) or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.5 Impairment assessment (continued)

Collectively assessed allowances

Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, vehicles murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances and contingent liabilities are assessed and provisions made in a similar manner as for Islamic financing and investing assets.

52.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the central banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.3 Liquidity risk and funding management (continued)

52.3.1 Liquidity risk management process

The Bank's liquidity risk management process, as carried out within the Bank and monitored by a separate team in Bank's Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of financing and investing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year were as follows:

	March	June	September	December
2012	**21%**	**25%**	**23%**	**22%**
2011 (Restated)	28%	31%	26%	21%

52.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

During the year ended 31 December 2012, the Bank issued a five-year sukuk AED 1,837 million (USD 500 million) sukuk to diversify sources of funding to support business growth going forward (note 20).

52.3.3 Non-derivative cash flows

The table below summarises the maturity profile of the gross cash flows of the Bank's financial assets and liabilities as at 31 December 2012 and 2011. The amounts disclosed in the table are the contractual gross cash flows, whereas the Bank manages the inherent liquidity risk based on expected gross cash flows.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.3 Liquidity risk and funding management (continued)

52.3.3 Non-derivative cash flows (continued)

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
2012						
Balances with central banks	3,123,315	4,186,484	8,240,797	97,315	-	15,647,911
Due from banks and financial institutions	528,113	2,641,207	-	-	-	3,169,320
Islamic financing and investing assets, net	5,613,187	10,358,216	9,493,686	27,046,938	21,804,536	74,316,563
Investment in Islamic sukuk	5,295	40,879	2,216,941	9,986,142	1,119,821	13,369,078
Other investments	-	-	613,061	1,531,810	-	2,144,871
Receivables and other assets	142,583	66,875	1,787,507	1,044,175	2,751	3,043,891
Total assets	9,412,493	17,293,661	22,351,992	39,706,380	22,927,108	111,691,634
Customers' deposits	23,219,576	18,259,290	11,247,196	17,168,237	79,095	69,973,394
Due to banks and other financial institutions	743,830	174,029	3,365,259	2,323,038	-	6,606,156
Sukuk financing instruments	-	1,102,187	1,119,559	3,533,591	-	5,755,337
Medium term wakala finance	-	-	-	4,052,746	-	4,052,746
Payables and other liabilities	894,555	1,228,508	541,878	589,281	1,406	3,255,628
Zakat payable	-	-	163,572	-	-	163,572
Total liabilities	24,857,961	20,764,014	16,437,464	27,666,893	80,501	89,806,833
2011 (Restated)						
Balances with central banks	2,267,577	5,169,220	5,543,329	-	-	12,980,126
Due from banks and financial institutions	578,966	2,464,250	-	-	-	3,043,216
Islamic financing and investing assets, net	6,666,872	5,285,198	13,273,753	26,953,980	18,755,600	70,935,403
Investment in Islamic sukuk	13	1,968	140,395	12,837,538	1,599,923	14,579,837
Other investments	-	-	586,761	1,447,628	-	2,034,389
Receivables and other assets	42,416	88,028	2,072,768	1,311,634	5,844	3,520,690
Total assets	9,555,844	13,008,664	21,617,006	42,550,780	20,361,367	107,093,661
Customers' deposits	26,672,736	14,148,104	10,645,391	16,289,557	32,127	67,787,915
Due to banks and other financial institutions	183,309	437,772	1,773,434	2,206,762	-	4,601,277
Sukuk financing instruments	-	-	2,404,861	2,361,376	-	4,766,237
Medium term wakala finance	-	-	-	4,352,950	-	4,352,950
Payables and other liabilities	1,424,634	173,891	811,599	968,486	6,223	3,384,833
Zakat payable	-	-	121,076	-	-	121,076
Total liabilities	28,280,679	14,759,767	15,756,361	26,179,131	38,350	85,014,288

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.3 Liquidity risk and funding management (continued)

52.3.3 Non-derivative cash flows (continued)

Assets available to meet all of the liabilities and to cover outstanding commitments include cash and balances with central banks, Islamic investing and financing assets, other investments and items in the course of collection.

52.3.4 Islamic derivative maturity profile

The Bank's Islamic derivatives will be settled on the following basis:

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.

- Islamic profit rate swaps: The transactions are settled by executing the purchase or sale of commodity under "Murabaha Sale Agreement".

The table below analyses the Bank's Islamic derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual gross cash flows.

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
2012						
Unilateral promise to buy/sell currencies	-	4,656,381	7,362,266	-	-	12,018,647
Islamic profit rate swaps	-	-	-	4,823,176	300,000	5,123,176
	-	4,656,381	7,362,266	4,823,176	300,000	17,141,823
2011 (Restated)						
Unilateral promise to buy/sell currencies	-	1,924,071	5,561,998	-	-	7,486,069
Islamic profit rate swaps	-	-	6,588,590	2,088,363	623,006	9,299,959
	-	1,924,071	12,150,588	2,088,363	623,006	16,786,028

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.3 Liquidity risk and funding management (continued)

52.3.5 Contingent liabilities and commitments

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

2012

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Contingent liabilities:						
- Letters of guarantee	-	5,509,650	1,528,333	761,220	1,718	7,800,921
- Letters of credit	-	1,563,847	397,861	587	-	1,962,295
	-	7,073,497	1,926,194	761,807	1,718	9,763,216
Capital expenditure commitments	-	-	12,135	255,436	-	267,571
Total	-	7,073,497	1,938,329	1,017,243	1,718	10,030,787

2011 (Restated)

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Contingent liabilities:						
- Letters of guarantee	-	4,897,105	1,857,537	754,045	2,262	7,510,949
- Letters of credit	-	1,288,386	589,034	204,405	-	2,081,825
	-	6,185,491	2,446,571	958,450	2,262	9,592,774
Capital expenditure commitments	-	-	167,082	149,493	-	316,575
Total	-	6,185,491	2,613,653	1,107,943	2,262	9,909,349

52 Risk management (continued)

52.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Bank is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

The Bank pays considerable attention to market risk. The Bank uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management; and

- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Bank's market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with the Bank's general market risk policy. The Chief Risk Officer of the Bank ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Bank is required to comply with the guidelines and regulations of the Central Bank of the U.A.E.

52.4.1 Profit margin risk

The Bank is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Bank 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 by which the depositors and investment account holders agree to share the profit or loss made by the Bank's Mudaraba asset pool over a given period.

52.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.4 Market risk (continued)

52.4.2 Profit rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	**Increase in basis points**	**Sensitivity of profit on Islamic financing and investing assets 2012 AED'000**	Sensitivity of profit on Islamic financing and investing assets 2011 AED'000 (Restated)
AED	**50**	**48,575**	48,296
USD	**50**	**5,850**	23,648

52.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2012 and 2011. Included in the table are the Bank's financial instruments at their carrying amounts, categorised by currency.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.4 Market risk (continued)

52.4.3 Foreign exchange risk (continued)

2012

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	15,200,459	203,004	-	-	-	70,086	15,473,549
Due from banks and financial institutions	848,034	2,108,489	66,362	71,630	50,805	23,794	3,169,114
Islamic financing and investing assets, net	50,013,671	4,180,344	200,374	7,243	-	1,158,471	55,560,103
Investment in Islamic sukuk measured at amortised cost	2,132,513	8,103,600	-	-	-	852,549	11,088,662
Other investments	1,073,635	777,895	149,064	74,919	3,486	65,872	2,144,871
Receivables and other assets	2,694,053	39,859	653	12,816	-	57,032	2,804,413
Total	71,962,365	15,413,191	416,453	166,608	54,291	2,227,804	90,240,712
Financial Liabilities:							
Customers' deposits	61,383,375	3,187,854	7,510	220,251	45,038	1,956,824	66,800,852
Due to banks and other financial institutions	4,975,530	1,104,029	-	435	11,419	66,876	6,158,289
Sukuk financing instruments	639,810	4,034,150	-	-	-	-	4,673,960
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Payables and other liabilities	2,709,692	327,198	11,436	1,617	574	53,967	3,104,484
Total	73,460,950	8,653,231	18,946	222,303	57,031	2,077,667	84,490,128
Net on balance sheet	(1,498,585)	6,759,960	397,507	(55,695)	(2,740)	150,137	5,750,584
Unilateral promise to buy/sell currencies	9,809,055	(9,628,614)	(291,934)	3,196	12,489	95,808	-
Currency position - long/(short)	8,310,470	(2,868,654)	105,573	(52,499)	9,749	245,945	5,750,584

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.4 Market risk (continued)

52.4.3 Foreign exchange risk (continued)

2011 (Restated)

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Other AED'000	Total AED'000
Financial Assets:							
Cash and balances with central banks	12,464,366	384,235	-	3,291	-	100,427	12,952,319
Due from banks and financial institutions	2,017,030	789,822	197,843	6,697	15,863	15,841	3,043,096
Islamic financing and investing assets, net	46,065,576	4,275,037	61,878	-	12,584	1,091,974	51,507,049
Investment in Islamic sukuk measured at amortised cost	5,308,625	6,894,889	-	-	-	484,597	12,688,111
Other investments	931,468	768,337	142,503	922	101,916	89,243	2,034,389
Receivables and other assets	2,716,328	138,862	-	-	12,439	72,789	2,940,418
Total	69,503,393	13,251,182	402,224	10,910	142,802	1,854,871	85,165,382
Financial Liabilities:							
Customers' deposits	58,324,061	4,930,075	22,987	32,162	161,086	1,459,468	64,929,839
Due to banks and other financial institutions	3,741,153	229,220	-	678	2,443	78,939	4,052,433
Sukuk financing instruments	1,100,000	3,073,983	-	-	-	-	4,173,983
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Payables and other liabilities	2,678,808	358,433	167,594	594	2,375	37,110	3,244,914
Total	69,596,565	8,591,711	190,581	33,434	165,904	1,575,517	80,153,712
Net on balance sheet	(93,172)	4,659,471	211,643	(22,524)	(23,102)	279,354	5,011,670
Unilateral promise to buy/sell currencies	5,906,329	(5,727,195)	(147,315)	10,887	(42,305)	(401)	-
Currency position - long/(short)	5,813,157	(1,067,724)	64,328	(11,637)	(65,407)	278,953	5,011,670

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.4 Market risk (continued)

52.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December 2012 and 2011 on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in %	Effect on profit before tax 2012 AED'000	Effect on profit before tax 2011 AED'000 (Restated)
GBP	+2	1,049	233
EURO	+2	(195)	1,308

Currency	Decrease in currency rate in %	Effect on profit before tax 2012 AED'000	Effect on profit before tax 2011 AED '000 (Restated)
GBP	-2	(1,049)	(233)
EURO	-2	195	(1,308)

52.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December 2012 and 2011 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.4 Market risk (continued)

52.4.4 Foreign investment (continued)

Currency	Increase in currency rate in %	Effect on profit before tax 2012 AED'000	Effect on equity 2012 AED'000	Effect on profit before tax 2011 AED'000 (Restated)	Effect on equity 2011 AED'000 (Restated)
Pak Rupees	+5	1,025	13,551	1,346	15,683
Egypt Sterling	+5	1,075	8,975	705	10,803

Currency	Decrease in currency rate in %	Effect on profit before tax 2012 AED'000	Effect on equity 2012 AED'000	Effect on profit before tax 2011 AED'000 (Restated)	Effect on Equity 2011 AED'000 (Restated)
Pak Rupees	-5	(156)	(12,261)	(151)	(10,476)
Egypt Sterling	-5	(254)	(8,122)	(638)	(7,191)

52.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through other comprehensive income (FVTOCI) at 31 December 2012 and 2011 and as available-for-sale at 31 December 2011) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in market indices %	Effect on consolidated income statement 2012 AED'000	Effect on equity 2012 AED'000	Effect on consolidated income statement 2011 AED'000 (Restated)	Effect on equity 2011 AED'000 (Restated)
Dubai Financial Market	±5%	112	16,522	317	13,594
Abu Dhabi Exchange	±5%	-	3,794	-	2,950
Bahrain Stock Exchange	±5%	-	1,970	-	2,547
Saudi Stock Exchange	±5%	-	3,417	-	3,805
Doha Stock Exchange	±5%	-	2,041	-	1,736
Other	±5%	-	2,304	-	1,965

52 Risk management (continued)

52.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Bank has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Bank that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Bank is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the Bank. The system houses three years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA and scenario based fraud risk self-assessment modules.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

53 Capital management

53.1 Capital management objective

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

53.2 Regulatory capital

The Bank's lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole. The Bank and individual banking operations within the Bank are directly supervised by their respective local regulators.

53 Capital management (continued)

53.2 Regulatory capital (continued)

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes share capital, statutory reserves, donated land reserve, general reserve, retained earnings, exchange translation reserve and non-controlling interests, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy calculation purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities (i.e. Medium term wakala finance), collective impairment allowance and investment fair value reserve relating to unrealised gain/loss on equity instruments measured as FVTOCI.

Various limits are applied to elements of the capital base:

- Tier 2 capital cannot exceed 67% of tier 1 capital;

- Tier 1 capital must be a minimum of 7% of risk weighted assets; and

- Qualifying subordinated liabilities capital cannot exceed 50 percent of tier 1 capital.

The Bank's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Bank is following the standardised approach for credit, market and operational risk, as permitted by the U.A.E. Central Bank and as per Pillar 1 of Basel 2.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis. During the years ended 31 December 2012 and 2011, the Bank complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2012 and 2011, all banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

53 Capital management (continued)

53.3 Capital adequacy ratio ("CAR")

Basel 2 and the U.A.E. Central Bank requirements are followed in calculating the following ratios:

	2012 AED'000	2011 AED'000 (Restated)
Tier 1 Capital		
Share capital	3,797,054	3,797,054
Other reserves	5,348,964	5,348,964
Retained earnings	725,192	563,777
Non-controlling interest	965,971	971,427
	10,837,181	10,681,222
Less:		
Cumulative deferred exchange losses	(197,192)	(105,560)
	10,639,989	10,575,662
Tier 2 Capital		
Investment fair value reserve	(820,130)	(831,849)
Collective impairment allowance	696,179	842,735
Medium term wakala finance	3,002,034	3,752,543
Deductions for associates	(477,491)	(602,255)
	2,400,592	3,161,174
Total capital base	13,040,581	13,736,836
Risk weighted assets		
Credit risk	69,353,608	70,353,269
Market risk	1,910,767	1,174,630
Operational risk	3,840,839	3,745,404
Total risk weighted assets	75,105,214	75,273,303
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio")	17.4%	18.2%
Tier 1 capital to total risk weighted assets after deductions for associates	13.9%	13.6%

54 Comparative amounts

54.1 Early adoption of International Financial Reporting Standard 9

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) in advance of its effective date. The Bank has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets). The Standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Bank's investments in financing instruments meeting the required criteria are measured at amortized cost; and
- the Bank's equity investments that are not held for trading have been designated as at FVTOCI.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures was applied.

The impact of this change in accounting policy at the beginning of the current year (as at 1 January 2012) is as follows:

	Investments fair value reserve AED'000	Retained earnings AED'000
Investment in AFS Islamic Sukuks		
▪ Reversal of related revaluation reserve	(4,784)	-
▪ Impact of funded income at effective profit rate in previous periods	-	252
Other equity investments		
▪ FVTPL equity investments – cumulative fair value impacts earlier accounted in consolidated statement of income in earlier years	(14,658)	14,658
▪ Quoted AFS investments – cumulative impairment losses accounted in consolidated income statement in earlier years	(422,531)	422,531
▪ Unquoted equity investments – re-measured at FVTOCI	-	(473,511)
	(441,973)	(36,070)

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

54 Comparative amounts (continued)

54.2 Reclassifications

The consolidated financial statements as at and for the year ended 31 December 2011 have been restated as a result of reclassification of:

(a) Profit and other income receivables amounting to AED 828 million from 'receivables and other assets' to their respective financial statements line-items (i.e. 'Islamic financing and investing assets (AED 700 million)' and 'Investments in Islamic sukuk (AED 128 million)'). This amount was reclassified in order to be in compliance with the requirements of International Financial Reporting Standard 7 (IFRS 7) which require that the carrying amounts of each financial instruments that are measured at amortized cost to be disclosed either in the statement of financial position or in the notes.

(b) Depositors' share of profit payable amounting to AED 159 million from 'payables and other liabilities' to 'customers' deposits'. This amount was reclassified in order to be in compliance with the requirements of International Financial Reporting Standard 7 (IFRS 7) which require that the carrying amounts of each financial instruments that are measured at amortized cost to be disclosed either in the statement of financial position or in the notes.

(c) Certain Islamic financing and investing assets amounting to AED 779 million (net of provision amounting to AED 470 million) from 'Islamic financing and investing assets' to 'receivables and other assets'. These assets are not meeting the definition of Islamic financing and investing assets; therefore, they were reclassified to receivables and other assets (Note 14).

As a result, the Bank has restated the following financial statements line-items:

	31 December 2011		
	As previously reported AED'000	Reclassification AED'000	As restated AED'000
Consolidated financial position			
Assets:			
Islamic financing and investing assets, net	51,586,088	(79,039)	51,507,049
Investments in Islamic sukuk	12,560,426	127,685	12,688,111
Receivables and other assets	3,099,336	(48,646)	3,050,690
Liabilities:			
Customers' deposits	64,771,317	158,522	64,929,839
Payables and other liabilities	3,543,355	(158,522)	3,384,833

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

54 Comparative amounts (continued)

54.2 Reclassifications (continued)

	1 January 2011		
	As previously reported AED'000	Reclassification AED'000	As restated AED'000
Consolidated financial position			
Assets:			
Islamic financing and investing assets, net	57,171,067	(62,544)	57,108,523
Investments in Islamic sukuk	8,200,476	68,496	8,268,972
Receivables and other assets	2,296,873	(5,952)	2,290,921
Liabilities:			
Customers' deposits	63,447,070	237,310	63,684,380
Payables and other liabilities	3,679,923	(237,310)	3,442,613

These reclassifications have no impact on the total assets, liabilities and equity as at 31 December 2011 and 2010; and on the profit reported for the years ended 31 December 2011 and 2010. The consolidated financial position at 1 January 2011 is, therefore, not included in these consolidated financial statements.

55 Subsequent events

The Board of Directors of the Bank has announced its intention to acquire 100% of Tamweel PJSC's shares by offering DIB shares in exchange for Tamweel shares to the non-controlling shareholders. It is the intention of the Bank to delist Tamweel shares from Dubai Financial Market upon completion of acquisition. The acquisition is subject to the approval of the shareholders, Tamweel's shareholders and regulatory authorities including the Ministry of Economy, the Securities and Commodities Authority of the U.A.E., the U.A.E. Central Bank, and Dubai Financial Market.

56 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 4 February 2013.

Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2011

Dubai Islamic Bank P.J.S.C.

**Report and consolidated financial statements
for the year ended 31 December 2011**

Deloitte.

Deloitte & Touche (M.E.)
1001 City Tower 1
Sheikh Zayed Road
P.O. Box 4254
Dubai, United Arab Emirates

Tel: +971 (0) 4 331 3211
Fax: +971 (0) 4 331 4178
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Dubai Islamic Bank P.J.S.C.
Dubai
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries (the "Bank") as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

Sindaha

Saba Y. Sindaha
Registration Number 410
1 February 2012

Consolidated statement of financial position as at 31 December 2011

	Note	2011 AED'000	2010 AED'000 (Restated)
ASSETS			
Cash and balances with Central Banks	6	**12,952,319**	11,247,225
Due from banks and financial institutions	7	**3,043,096**	2,356,531
Islamic financing and investing assets, net	8	**51,586,088**	57,171,067
Investments in Islamic sukuk	9	**12,560,426**	8,200,476
Other investments	10	**2,034,389**	1,772,946
Investments in associates	11	**2,336,439**	3,176,904
Properties under construction	12	**105,284**	524,165
Properties held for sale	13	**504,472**	544,959
Investment properties	14	**1,785,205**	1,922,911
Receivables and other assets	15	**3,099,336**	2,296,873
Property, plant and equipment	16	**581,410**	653,086
Goodwill	17	**-**	17,258
Total assets		**90,588,464**	89,884,401
LIABILITIES			
Customers' deposits	21	**64,771,317**	63,447,070
Due to banks and financial institutions	22	**4,052,433**	4,409,427
Sukuk financing instruments	23	**4,173,983**	4,176,015
Medium term wakala finance	24	**3,752,543**	3,752,543
Payables and other liabilities	25	**3,543,355**	3,679,923
Accrued zakat	28	**121,076**	146,336
Total liabilities		**80,414,707**	79,611,314
EQUITY			
Share capital	29	**3,797,054**	3,797,054
Statutory reserve	30	**2,731,879**	2,731,879
Donated land reserve	30	**267,085**	276,139
General reserve	30	**2,350,000**	2,350,000
Exchange translation reserve	30	**(122,218)**	(91,541)
Investments fair value reserve	31	**(831,849)**	(243,166)
Hedging reserve	33	**-**	10,656
Retained earnings		**943,484**	495,058
Equity attributable to equity holders of the Parent		**9,135,435**	9,326,079
Non-controlling interests	35	**1,038,322**	947,008
Total equity		**10,173,757**	10,273,087
Total liabilities and equity		**90,588,464**	89,884,401
Contingent liabilities and commitments	36	**18,665,850**	24,266,184

H. E. Mohammad A. Al Shaibani
Chairman

Dr. Tarek Humaid Al Tayer
Vice Chairman

Abdulla Ali Al Hamli
Chief Executive Officer

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

Consolidated income statement
for the year ended 31 December 2011

	Notes	2011 AED'000	2010 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	38	**3,448,506**	3,221,695
Income from Islamic sukuk		**517,332**	376,260
Income from International murabahats and wakala, short term	39	**83,133**	36,313
Gain from other investments	40	**39,036**	136,163
Commissions, fees and foreign exchange income	41	**700,587**	687,030
Income from investment properties	42	**70,042**	90,166
Income from sale of properties held for sale	43	**15,390**	14,498
Other income	44	**130,837**	140,006
Gain on buy back of sukuk financing instrument	23	**-**	6,418
Total income		**5,004,863**	4,708,549
EXPENSES			
Personnel expenses	45	**(908,883)**	(817,819)
General and administrative expenses	46	**(563,409)**	(542,943)
Depreciation of investment properties	14	**(24,205)**	(22,669)
Impairment loss on financial assets, net	47	**(994,964)**	(801,055)
Impairment loss on non-financial assets, net	48	**(91,948)**	(62,824)
Total expenses		**(2,583,409)**	(2,247,310)
Profit before depositors' share and tax		**2,421,454**	2,461,239
Depositors' share of profits	49	**(1,386,808)**	(1,435,631)
Operating profit for the year		**1,034,646**	1,025,608
Share of profit/(loss) from associates	11	**28,551**	(1,099,891)
Gain on acquiring controlling interest	20	**-**	637,038
Profit for the year before tax		**1,063,197**	562,755
Income tax expense	26	**(6,782)**	(3,492)
Profit for the year		**1,056,415**	559,263
Attributable to:			
Equity holders of the parent		**1,010,141**	553,153
Non-controlling interests		**46,274**	6,110
Profit for the year		**1,056,415**	559,263
Basic and diluted earning per share attributable to the equity holders of the parent (AED)	50	**AED 0.26**	AED 0.15

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

Consolidated statement of comprehensive income for the year ended 31 December 2011

	2011 AED'000	2010 AED'000 (Restated)
Profit for the year	**1,056,415**	559,263
Other comprehensive (loss)/income		
Net gain on available for sale investments during the year	**-**	606,140
Reclassification of realised gain on disposal of available for sale of investments to profit or loss	**-**	(125,593)
Currency translation differences of foreign operations	**(30,677)**	(13,700)
Reclassification of cash flow hedging reserve to profit or loss	**(10,656)**	(39,944)
Fair value loss on other investments carried at FVTOCI	**(146,724)**	-
Directors' remuneration	**(5,350)**	(4,800)
Total other comprehensive (loss)/income for the year	**(193,407)**	422,103
Total comprehensive income for the year	**863,008**	981,366
Attributable to:		
Equity holders of the parent	**816,734**	975,256
Non-controlling interests	**46,274**	6,110
	863,008	981,366

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

Consolidated statement of changes in equity for the year ended 31 December 2011

	Share capital AED'000	Treasury shares AED'000	Total reserves AED'000	Investments fair value reserve AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total Equity AED'000
Balance at 1 January 2010	3,617,505	(70,901)	5,280,177	(723,713)	50,600	822,222	8,975,890	4,910	8,980,800
Profit for the year - before restatement	-	-	-	-	-	806,523	806,523	6,110	812,633
Restatement:									
Effect of prior year adjustment relating to share of loss of an associate (note 59)	-	-	-	-	-	(253,370)	(253,370)	-	(253,370)
Profit for the year - restated	-	-	-	-	-	553,153	553,153	6,110	559,263
Other comprehensive income for the year	-	-	(13,700)	480,547	(39,944)	(4,800)	422,103	-	422,103
Total comprehensive income for the year - restated	-	-	(13,700)	480,547	(39,944)	548,353	975,256	6,110	981,366
Additional non-controlling interest arising on acquisition of a subsidiary	-	-	-	-	-	-	-	940,300	940,300
Issuance of bonus shares	179,549	-	-	-	-	(179,549)	-	-	-
Dividends paid	-	-	-	-	-	(538,648)	(538,648)	(4,312)	(542,960)
Treasury shares disposed	-	70,901	-	-	-	(11,473)	59,428	-	59,428
Share based payments vested	-	-	-	-	-	479	479	-	479
Accrued zakat (note 28)	-	-	-	-	-	(146,326)	(146,326)	-	(146,326)
Balance at 1 January 2011 - restated	3,797,054	-	5,266,477	(243,166)	10,656	495,058	9,326,079	947,008	10,273,087

Consolidated statement of changes in equity for the year ended 31 December 2011 (continued)

	Share capital AED'000	Treasury shares AED'000	Total reserves AED'000	Investments fair value reserve AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total Equity AED'000
Balance at 1 January 2011 - restated	3,797,054	-	5,266,477	(243,166)	10,656	495,058	9,326,079	947,008	10,273,087
Effect of the change in accounting policy for classification and measurement of financial assets – IFRS 9 (note 2)	-	-	-	(441,973)	-	(36,070)	(478,043)	-	(478,043)
Balance at 1 January 2011 – restated	3,797,054	-	5,266,477	(685,139)	10,656	458,988	8,848,036	947,008	9,795,044
Profit for the year	-	-	-	-	-	1,010,141	1,010,141	46,274	1,056,415
Net realized loss on disposal of investments carried at FVTOCI	-	-	-	14	-	(14)	-	-	-
Other comprehensive loss for the year	-	-	(30,677)	(146,724)	(10,656)	(5,350)	(193,407)	-	(193,407)
Total comprehensive income for the year	-	-	(30,677)	(146,710)	(10,656)	1,004,777	816,734	46,274	863,008
Additions in the non-controlling interest	-	-	-	-	-	-	-	61,383	61,383
Disposal of Donated Land Reserve	-	-	(9,054)	-	-	-	(9,054)	-	(9,054)
Dividends paid	-	-	-	-	-	(379,705)	(379,705)	(2,952)	(382,657)
Accrued zakat (note 28)	-	-	-	-	-	(140,576)	(140,576)	(13,391)	(153,967)
Balance at 31 December 2011	**3,797,054**	**-**	**5,226,746**	**(831,849)**	**-**	**943,484**	**9,135,435**	**1,038,322**	**10,173,757**

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

Consolidated statement of cash flows
for the year ended 31 December 2011

	2011	2010
	AED'000	AED'000
		(Restated)
Cash flows from operating activities		
Profit for the year before tax	**1,063,197**	562,755
Adjustments for:		
Net impairment loss on financial assets	**994,964**	801,055
Net impairment loss on non-financial assets	**91,948**	62,824
Depreciation of investment properties	**24,205**	22,669
Depreciation of property, plant and equipment	**120,313**	122,855
Dividend income	**(35,679)**	(24,303)
Share of (profit)/ loss from associates	**(28,551)**	1,099,891
Gain on disposal of properties held for sale	**(15,390)**	(14,498)
Amortisation of sukuk instruments issued by a subsidiary	**16,333**	-
Write off of property, plant and equipment	**717**	4,099
Amortisation of hedging reserve	**(10,656)**	(39,943)
Revaluation of investments at fair value through profit or loss	**541**	13,182
Gain on disposal of property, plant and equipment	**(245)**	(20)
(Gain)/loss on disposal of investments at fair value through profit or loss	**(3,186)**	1,941
Gain on acquiring controlling interest	**-**	(637,038)
Gain on disposal of available for sale investments	**-**	(125,593)
Gain on sale of investment properties	**-**	(18,001)
Cost of shared based payments	**-**	479
Gain on buy back of sukuk financial instruments	**-**	(6,418)
Operating cash flow before changes in operating assets and liabilities	**2,218,511**	1,825,936
Movement in deposits and International murabahas with original maturities above three months	**(3,401,770)**	(3,031,239)
Decrease in Islamic financing and investing assets	**4,608,837**	1,677,043
Increase in receivables and other assets	**(120,934)**	(733,760)
Increase/(decrease) in customers' deposits	**1,325,707**	(2,227,113)
Decrease in due to banks and financial institutions	**(356,994)**	(923,002)
Decrease in payables and other liabilities	**(75,155)**	(4,488)
Accrued zakat paid	**(180,711)**	(140,536)
Cash generated from / (used in) operating activities	**4,017,491**	(3,557,159)
Tax paid	**(6,017)**	(1,414)
Net cash generated from/(used in) operating activities	**4,011,474**	(3,558,573)

Consolidated statement of cash flows
for the year ended 31 December 2011 (continued)

	2011 AED'000	2010 AED'000 (Restated)
Cash flows from investing activities		
Purchase of investments in Islamic sukuk	**(4,669,048)**	-
Proceeds from disposal of investments in Islamic sukuk	**286,201**	864,585
Proceeds from disposal of investments at FVTPL	**18,580**	4,511
Purchase of investments carried at FVTOCI	**(58,066)**	-
Purchase of available for sale investments	**-**	(42,343)
Proceeds from disposal of available for sale investments	**-**	16,166
Dividend income	**46,336**	24,302
Investments in associates	**-**	6,136
Additions to properties under construction	**(31,385)**	(135,517)
Additions to properties held for sale	**(18,112)**	(29,747)
Proceeds from disposal of properties held for sale	**30,686**	31,067
Proceeds from disposal of investment properties	**2,658**	22,204
Additions to investment properties	**(264,886)**	(8,757)
Purchase of property, plant and equipment	**(58,138)**	(93,303)
Proceeds from disposal of property, plant and equipment	**964**	1,402
Net cash outflow on acquisition of controlling interest	**-**	(81,851)
Net cash (used in)/from investing activities	**(4,714,210)**	578,855
Cash flow from financing activities		
Dividends paid	**(382,657)**	(538,648)
Buy back of sukuk financing instruments	**-**	(51,542)
Non-controlling interests	**61,383**	(2,841)
Net cash used in financing activities	**(321,274)**	(593,031)
Decrease in cash and cash equivalents	**(1,024,010)**	(3,572,749)
Cash and cash equivalents at the beginning of the year	**10,483,681**	14,079,992
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**13,899**	(23,562)
Cash and cash equivalents at the end of the year (Note 51)	**9,473,570**	10,483,681

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

Notes to the consolidated financial statements
for the year ended 31 December 2011

1 General information

Dubai Islamic Bank (Public Joint Stock Company) (the "Bank") 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.

The Bank operates in the U.A.E. through its 71 branches (2010: 68 branches) in across the U.A.E. The accompanying consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

2 Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years)

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these consolidated financial statements. Details of other new and revised IFRSs adopted in these consolidated financial statements that have had no material effect on the financial statements are set out in section 2.2.

- Amendments to IAS 1 *Presentation of Financial Statements* (as part of Improvements to IFRSs issued in 2010) — The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Bank has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.
- Amendments to IFRS 7 *Financial Statements : Disclosures* — These amendments require disclosures about the initial application of IFRS 9. These amendments have been adopted in advance of its effective date because the Bank has also adopted IFRS 9 in advance of its effective date.
- IFRS 9 *Financial instruments* — IFRS 9 prescribes the classification and measurement of financial assets and completes the first phase of the project to replace IAS 39 Financial instruments: Recognition and Measurement. The impact on the consolidated financial statements is described below.

IFRS 9 Financial Instruments: Recognition and Measurement

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) in advance of its effective date. The Bank has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets). The Standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years) (continued)

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

The financing instruments (i.e. Islamic Sukuks) are measured at amortized cost only if:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as fair value through profit or loss ("FVTPL"). Additionally, even if the asset meets the amoritsed cost criteria, the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Bank has elected not to designate any financing instruments (i.e. Islamic Sukuks) as FVTPL under the fair value option.

Only financial assets that are classified as measured at amortized cost are tested for impairment.

All Islamic derivatives are classified as at FVTPL, except if designated in an effective cash flow hedge or hedge of a foreign operation hedge accounting relationship. In accordance with IFRS 9, embedded derivatives within the scope of that Standard are not separately accounted for as financial assets.

Investments in equity instruments not held for trading are designated by the bank as at fair value through other comprehensive income ("FVTOCI") as the equity investments are not held for trading. If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income are recognised in other comprehensive income and are not subsequently reclassified to statement of income.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Bank's investments in financing instruments meeting the required criteria are measured at amortized cost; and
- the Bank's equity investments that are not held for trading have been designated as at FVTOCI.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures was applied.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years) (continued)

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

The impact of this change in accounting policy at the beginning of the current year (as at 1 January 2011) is as follows:

	Investments fair value reserve AED'000	Retained earnings AED'000
Investment in AFS Islamic Sukuks		
▪ Reversal of related revaluation reserve	(4,784)	-
▪ Impact of funded income at effective profit rate in previous periods	-	252
Other equity investments		
▪ FVTPL equity investments – cumulative fair value impacts earlier accounted in consolidated statement of income in earlier years	(14,658)	14,658
▪ Quoted AFS investments – cumulative impairment losses accounted in consolidated income statement in earlier years	(422,531)	422,531
▪ Unquoted equity investments – re-measured at FVTOCI	-	(473,511)
	(441,973)	(36,070)

Had IFRS 9, not been adopted during the current year, the consolidated income statement would have been impacted by a decrease in net profit by AED 34.19 million resulting from fair value changes in FVTPL investments.

Additional disclosures required, reflecting the revised classification and measurement of financial assets of the Bank as a result of adopting IFRS 9, are shown in Notes 9, 10, 31 and 56 to these consolidated financial statements.

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

• Amendments to IFRS 3 *Business Combination*	As part of *Improvements to IFRSs* issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure'). The application of the amendments has had no effect on the amounts reported in the current year because the Bank has not acquired any new entity in the current year.
• IAS 24 *Related Party Disclosures* (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not identified any entity, which could have been considered as related party.
• IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2010)	These amendments relate to clarification of disclosure requirements.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

• Amendments to IAS 32 *Classifications of Rights Issues*.	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not issued instruments of this nature.
• Amendments to IFRIC 13 *Customer Loyalty Programmes*	These amendments relate to fair value of award credits.
• Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Bank's consolidated financial statements.
• IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Bank has not entered into any transactions of this nature.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

• *Improvements to IFRSs* issued in 2010	Except for the amendments to IFRS 9 and IAS 1 described earlier in section 2.1, the application of *Improvements to IFRSs* issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

2.3 New and revised IFRSs is in issue but not yet effective

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
• Amendments to IFRS 7 *Financial Instruments : Disclosure – Transfer of Financial Assets*	1 July 2011
• Amendments to IFRS 7 *Financial Instruments : Disclosure – Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities*	1 January 2013
• IFRS 10 *Consolidated Financial Statements*	1 January 2013
• IFRS 11 *Joint Arrangements*	1 January 2013
• IFRS 12 *Disclosure of interests in other entities*	1 January 2013
• IFRS 13 *Fair Value Measurement*	1 January 2013
• Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
• Amendments to IAS 12 *Deferred Tax – Recovery of Underlying Assets*	1 January 2012
• IAS 19 (as revised in 2011) *Employee Benefits*	1 January 2013
• IAS 27 (as revised in 2011) *Separate Financial Statements*	1 January 2013
• IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*	1 January 2013
• Amendments to IAS 32 *Financial Instruments : Presentation – Offsetting of Financial Assets and Financial Liabilities*	1 January 2014
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

Management has not yet had an opportunity to consider the potential impact of the adoption of these standards and interpretations.

3 Definitions

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

3.1 Murabahat

An agreement whereby the Bank sells to a customer a commodity or asset, 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.

3.2 Salam finance

An agreement whereby the Bank purchases specified commodity and pays full price of a commodity in advance, whereas the customer delivers the goods with certain specifications and certain quantity on the agreed future date(s). i.e. purchase of commodity for deferred delivery by the customer in exchange for upfront payment of the full purchase price by the purchaser (the Bank).

3.3 Istisna'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 against an agreed price.

3.4 Ijarah

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

3.5 Musharaka

An agreement between the Bank and a customer 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.

3.6 Mudaraba

An agreement between the Bank 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.

3.7 Wakala

An agreement whereby the Bank provides a certain sum of money to an agent, who invests in a Sharia compliant manner and 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.

3.8 Sukuk

These comprise asset backed, Sharia'a compliant trust certificates.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No.2624/2008 dated 12 October 2008, the Bank's exposure in Cash and balances with Central Banks, Balances and deposits with banks and other financial institutions, International murabahat with financial institutions, short term and other investments outside the U.A.E. have been presented under the respective explanatory notes to the consolidated financial statements.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank") as set out in Note 19. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Bank.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Bank's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

4 Significant accounting policies (continued)

4.3 Basis of consolidation (continued)

When the Bank loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

4.4 Due from banks and financial institutions

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

International murabahat with financial institutions, short term are stated at cost less provisions for impairment and deferred profits.

4.5 Islamic financing and investing assets

Islamic financing and investing assets consist of murabahat receivables, salam finacing, mudaraba, musharaka, wakala arrangements, istisna'a and ijarah contracts and they are measured at amortised cost less any amounts written off and provision for impairment losses. Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Provision for impairment is made for Islamic financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Islamic financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Losses expected from future events are not recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

4.6 Islamic financing and investing assets impairment

4.6.1 Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

a) Principal and profit are not serviced as per contractual terms; and
b) When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

4 Significant accounting policies (continued)

4.6 Islamic financing and investing assets impairment (continued)

4.6.1 Individually assessed Islamic financing and investing assets (continued)

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows discounted at the Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing assets' observable market price or fair value of the collaterals if the Islamic financing and investing assets is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing assets' carrying value and its present impaired value.

4.6.2 Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

4.6.3 Incurred but not yet identified

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or Islamic financing and investing assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the consolidated financial position date, which the Bank is not able to identify on an individual basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual Islamic financing and investing assets within the group of the customer, those Islamic financing and investing assets are removed from the group of the customer and assessed on an individual basis for impairment.

4.6.4 Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the investing and financing asset impairment provision account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

4.6.5 Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continue to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the Islamic financing and investing assets to be moved to performing category.

4 Significant accounting policies (continued)

4.7 Investment in Islamic Sukuk

4.7.1 Investments in Islamic Sukuk - Per IFRS 9

Investments in Islamic Sukuk are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Investments in Islamic Sukuk meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective yield method less any impairment, with profit recognised on an effective yield basis in income from investments in Islamic Sukuk in the consolidated income statement.

Subsequent to initial recognition, the Bank is required to reclassify investments in Islamic Sukuk from amortised cost to fair value through profit or loss, if the objective of the business model changes so that the amortised cost criteria is no longer met.

The Bank may irrevocably elect at initial recognition to classify investment in Islamic Sukuk that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost. At the reporting date, the Bank has elected not to designate any investments in Islamic Sukuk as FVTPL under the fair value option.

Impairment of Islamic Sukuk

Islamic Sukuks measured at amortised cost are assessed for impairment at the end of each reporting period. Islamic Sukuks are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the Islamic Sukuks, the estimated future cash flows of the asset have been affected.

4.7.2 Investments in Islamic Sukuk - Per IAS 39 - For comparatives only

Held to maturity

Investments in Islamic Sukuk which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments in Islamic Sukuk are carried at amortised cost, using effective profit rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective profit rate method.

If there is objective evidence that an impairment on held to maturity investments in Islamic Sukuk carried at amortised cost has been incurred, the amount of impairment loss recognised is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective profit rate, with the resulting impairment loss, if any, in the consolidated income statement.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.7.2 Investments in Islamic Sukuk - Per IAS 39 - For comparatives only (continued)

Available for sale investments

Investments in Islamic Sukuk not classified as “held to maturity” are classified as “available for sale” and are stated at fair value.

Available for sale investments in Islamic Sukuk are initially recognised at fair value plus any directly attributable transaction cost and are subsequently measured at fair value.

After initial recognition, investments which are classified as “available for sale” are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and recorded in the cumulative changes in fair value with the exception of impairment losses, profit calculated using the effective yield method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is reclassified to consolidated income statement.

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

4.8 Other investments

4.8.1 Other investments classification- Per IFRS 9

Investments carried at fair value through profit or loss

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised is included in the net investment income in the consolidated income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in consolidated statement of income when the Bank’s right to receive the dividends is established.

Investments carried at fair value through other comprehensive income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate other investments as at fair value through other comprehensive income (FVTOCI). Designation at FVTOCI is not permitted if the equity investment is held for trading.

Other investments are held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.8 Other investments (continued)

4.8.1 Other investments classification- Per IFRS 9 (continued)

Investments carried at fair value through other comprehensive income (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair values. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the cumulative changes in fair value is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investments.

4.8.2 Other investments classification - Per IAS 39 - For comparatives only

Investments carried at fair value through profit or loss

Financial assets are classified at fair value through profit or loss ("FVTPL") where the financial assets is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short- term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss arising on re-measurement in the consolidated income statement.

Available for sale investments

Investments not classified as "FVTPL" are classified as "available for sale" and are stated at fair value.

If available for sale investment is impaired, the difference between the acquisition cost and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available for sale financial asset, subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity.

Reclassification of other investments

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.8 Other investments (continued)

4.8.3 Derecognition of other investments

The Bank derecognises an investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

4.9 Fair values

4.9.1 Fair values - Financial instruments

For quoted investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business at the end of reporting period. Bid prices are used for assets and offer prices are used for liabilities. In accordance with IAS 39, unquoted instruments were stated at cost as at 31 December 2010.

For unquoted investments not actively traded in organised financial markets fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market.

The fair value of unilateral promise to buy/sell currencies is calculated by reference to foreign exchange rates with similar maturities.

4.9.2 Fair values – non financial assets

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

4.10 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies, by having active representation at the Board of Directors or Management Committees who has power to participate in the financial and operating policy of the company. Significant influence is assessed on an ongoing basis.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. After the application of the equity method, the Bank determines whether it is necessary to recognise any impairment loss on the Bank's investment in its associates. The Bank determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the consolidated income statement.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in consolidated income statement.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.10 Investments in associates (continued)

Where a Bank transacts with an associate, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

4.11 Fund management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity.

4.12 Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are recognised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are recognised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, cost in respect to unsold properties is eliminated from properties under construction and transferred to properties held for sale.

4.13 Properties held for sale

Properties acquired or constructed with the intention of sale are classified as properties held for sale when construction is completed. Properties held for sale are stated at cost or at net realisable value, whichever is lower. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are capitalised as and when the activities that are necessary to get the assets ready for the intended use are in progress. Net realisable 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 capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

4.14 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.

4.15 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 accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

4 Significant accounting policies (continued)

4.15 Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

4.16 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

• 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 estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

4.17 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Bank’s accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Bank’s policies.

4 Significant accounting policies (continued)

4.18 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.19 Investments in joint ventures

The Bank's interests in joint ventures, which are defined as a contractual arrangement whereby the Bank and other parties undertake an economic activity that is subject to joint control, are accounted for under the proportionate consolidation method whereby the Bank accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

The reporting dates of the joint venture and the Bank are identical and the joint venture's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

4.20 Business combination

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.20 Business combination (continued)

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal Banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.20 Business combination (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4.21 Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.22 Customers' deposits, due to banks and financial institutions and Medium term wakala finance

Customers' deposits, due to banks and financial institutions and Medium term wakala finance are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

4.23 Sukuk financing instruments

4.23.1 Non-convertible sukuk

Sukuk financing instruments are initially measured at fair value, net of transaction costs, and then are subsequently measured at amortised cost using the effective profit rate method, with profit expense recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4 Significant accounting policies (continued)

4.23 Sukuk financing instruments (continued)

4.23.2 Convertible sukuk

Convertible Sukuk that can be settled at the option of the issuer are recorded as compound financial instruments. The equity component of the convertible sukuk is calculated as the excess of the issue proceeds over the present value of the future profit and principal payments, discounted at the market rate of profit applicable to similar liabilities that do not have a conversion option.

4.24 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective profit method, with depositors' share of profit recognised on an effective yield basis.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating depositors' share of profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

4.25 Derecognition of financial assets and financial liabilities

4.25.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised on when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4.25.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same financial institution on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

4.26 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 2 of 2000.

The Bank provides end of service benefits for 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.

4 Significant accounting policies (continued)

4.27 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective countries in which the Bank operates.

4.27.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.27.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4.28 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities 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, exchange translation reserve, hedging reserve and cumulative changes in fair value) plus employees' end of service benefits;
- Zakat paid by investee companies directly are adjusted in shareholders zakat, if the bank only accounts net profit after zakat of investee;
- Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves;
- Zakat on depositors' investment risk reserve is charged to this provision after it has been calculated; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.

4 Significant accounting policies (continued)

4.29 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 Sharia'a Supervisory Board.

4.30 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

4.31 Share capital - equity instruments

Financing and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity instrument if, and only if, below both conditions are met:

(a) The instrument includes no contractual obligation:
   - (i) to deliver cash or another financial asset to another entity; or
   - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:
   - (i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
   - (ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

4 Significant accounting policies (continued)

4.32 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated financial position date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4.33 Financial guarantees

Financial guarantees are undertaking/commitment that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

4.34 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.35 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic swap.

Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether Islamic derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in consolidated income statement.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.35 Derivative financial instruments (continued)

When Islamic derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to Islamic derivatives designated as hedging instruments in a fair value, cash flow or net investment hedges provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in 'Net profit income'.

4.35.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

4.35.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.35.3 Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

4.36 Unilateral promise to buy/sell currencies (the Promise)

The promises are stated at fair value. The fair value of a promise is the equivalent of the unrealised gain or loss from marking to market the promise using prevailing market rates. The promise with positive market value (unrealised gain) are included in other assets and the promise with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

4.37 Revenue recognition

4.37.1 Income from investing and financing assets

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit rate method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective profit rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

4.37.2 Murabahat

Murabahat income is recognised on an effective profit rate basis over the period of the contract based on the principal amounts outstanding.

4.37.3 Salam finance

Salam income is recognised on effective profit rate basis over the period of contract based on salam capital outstanding.

4.37.4 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.

4.37.5 Ijarah

Ijarah income is recognised on an effective profit rate basis over the Ijarah term.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.37.6 Musharaka

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

4.37.7 Mudaraba

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

4.37.8 Wakala

Wakala income is recognised on an effective profit rate basis over the Wakala term.

4.37.9 Sukuk

Income is accounted for on a time-apportioned basis over the term of the Sukuk.

4.37.10 Fee and commission income

Fee and commission income is recognised when the related services are performed.

4.37.11 Dividends

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

4.37.12 Sale of property

Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer’s initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Bank has transferred to the buyer the significant risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

4.38 Forfeited income

According to the Fatwa and Sharia’a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia’a regulations and to set aside such amount in a separate account used to pay for local social activities.

4.39 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank’s consolidated financial statements as they are not assets of the Bank.

4 Significant accounting policies (continued)

4.40 Operating lease

4.40.1 The Bank as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4.40.2 The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4.41 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4.42 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the end of reporting period. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the consolidated income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the consolidated financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange translation reserve'.

4 Significant accounting policies (continued)

4.42 Foreign currencies (continued)

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.43 Trade and settlement date accounting

The “regular way” purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated financial position date is recognised in the consolidated income statement for assets classified as held for trading and in other comprehensive income for assets classified as available for sale.

4.44 Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

4.45 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 54 on Business Segment reporting.

5 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 4, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of Islamic derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of Islamic derivative financial instruments are summarised as follows:

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful Islamic financing and investing assets.

5.1.1 Individually assessed Islamic financing and investing assets

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals;
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

5.1.2 Collectively assessed Islamic financing and investing assets

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of Islamic financing and investing assets which may be impaired but not identified as of the consolidated financial position date.

5.2 Classification of investments

5.2.1 Classification of investments - per IFRS 9

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Bank's investment in securities are appropriately classified and measured.

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.2 Classification of investments (continued)

5.2.2 Classification of investments - per IAS 39

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available, reliable fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

5.3 Impairment of available for sale investments - per IAS 39

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

5.4 Impairment of associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

In determining the value in use of the investment, the Bank estimates:

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5.5 Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.5 Islamic derivative financial instruments (continued)

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

6 Cash and balances with Central Banks

	2011 AED'000	2010 AED'000 (Restated)
Cash in hand	**1,494,417**	1,374,754
Balances with Central Banks:		
- Current accounts	**773,160**	2,664,847
- Reserve requirements	**4,162,897**	3,905,838
- International murabahat with Central Bank – short term	**6,521,845**	3,301,786
	12,952,319	11,247,225

The reserve requirements are kept with the Central Banks of U.A.E. and Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective Central Banks. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives.

Cash and balances with Central Banks by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within the U.A.E.	**12,822,994**	11,114,569
Outside the U.A.E.	**129,325**	132,656
	12,952,319	11,247,225

7 Due from banks and financial institutions

	2011 AED'000	2010 AED'000 (Restated)
Current accounts	**451,311**	336,541
Investment deposits	**793,828**	751,880
International murabahat - short term	**1,797,957**	1,268,110
	3,043,096	2,356,531

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

7 Due from banks and financial institutions (continued)

Balances and deposits with banks and financial institutions by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within the U.A.E.	**2,672,090**	2,019,539
Outside the U.A.E.	**371,006**	336,992
	3,043,096	2,356,531

8 Islamic financing and investing assets, net

	2011 AED'000	2010 AED'000 (Restated)
Islamic financing Assets		
Commodities murabahat	**4,254,785**	5,495,201
International murabahat - long term	**1,550,959**	1,661,426
Vehicles murabahat	**5,841,766**	6,546,265
Real estate murabahat	**4,580,452**	5,187,596
Total murabahat	**16,227,962**	18,890,488
Istisna'a	**6,170,597**	7,289,783
Home finance ijara	**12,472,203**	12,225,198
Other ijaras	**8,824,658**	10,032,307
Salam	**3,139,219**	1,399,132
Islamic credit cards	**454,715**	431,953
	47,289,354	50,268,861
Deferred income	**(2,983,812)**	(3,834,249)
Contractors and consultants' Istisna'a contracts	**(249,840)**	(524,002)
Provisions for impairment	**(3,508,555)**	(2,824,393)
	40,547,147	43,086,217
Islamic investing Assets		
Musharakat	**6,124,109**	9,717,533
Mudaraba	**3,592,015**	3,709,791
Wakalat	**1,745,499**	790,207
	11,461,623	14,217,531
Provision for impairment	**(422,682)**	(132,681)
	11,038,941	14,084,850
Islamic financing and investing assets, net	**51,586,088**	57,171,067

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

8 Islamic financing and investing assets, net (continued)

Islamic financing and investing assets by industry group and geography are as follows:

	2011		
	U.A.E.	**International**	**Total**
	AED'000	**AED'000**	**AED'000**
Economic sector			
Financial institutions	**2,921,895**	**371,986**	**3,293,881**
Real estate	**17,155,690**	**3,423**	**17,159,113**
Trade	**2,040,852**	**89,587**	**2,130,439**
Government	**2,563,280**	**-**	**2,563,280**
Manufacturing and services	**6,497,835**	**1,106,727**	**7,604,562**
Consumer home finance	**12,482,448**	**245,577**	**12,728,025**
Consumer financing	**9,826,692**	**211,333**	**10,038,025**
Total	**53,488,692**	**2,028,633**	**55,517,325**
Provision for impairment			**(3,931,237)**
Total			**51,586,088**

	2010 (Restated)		
	U.A.E.	International	Total
	AED'000	AED'000	AED'000
Economic sector			
Financial institutions	3,014,911	413,706	3,428,617
Real estate	17,478,834	434	17,479,268
Trade	2,755,050	65,971	2,821,021
Government	4,843,577	17,156	4,860,733
Manufacturing and services	8,242,261	1,141,821	9,384,082
Consumer home finance	12,578,399	-	12,578,399
Consumer financing	9,090,735	485,286	9,576,021
Total	58,003,767	2,124,374	60,128,141
Provision for impairment			(2,957,074)
Total			57,171,067

Provisions for impairment

Movements in the provision for impairment are as follows:

	2011		
	Financing	**Investing**	**Total**
	AED'000	**AED'000**	**AED'000**
Balance at the beginning of the year	**2,824,393**	**132,681**	**2,957,074**
Charge for the year	**1,113,285**	**403,902**	**1,517,187**
Release to the profit or loss	**(446,582)**	**(93,305)**	**(539,887)**
Write-offs during the year	**(1,979)**	**-**	**(1,979)**
Other	**19,438**	**(20,596)**	**(1,158)**
Balance at the end of the year	**3,508,555**	**422,682**	**3,931,237**
Gross amount of Islamic financing and investing assets, individually determined to be impaired	**5,671,417**	**2,385,199**	**8,056,616**

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

8 Islamic financing and investing assets, net (continued)

Provisions for impairment (continued)

	2010 (Restated)		
	Financing AED'000	Investing AED'000	Total AED'000
Balance at the beginning of the year	1,845,257	103,045	1,948,302
Acquisition of controlling interest	364,073	-	364,073
Charge for the year	834,493	94,470	928,963
Release to the profit or loss	(217,206)	(58,321)	(275,527)
Write-offs during the year	(2,135)	(6,260)	(8,395)
Other	(89)	(253)	(342)
Balance at the end of the year	2,824,393	132,681	2,957,074
Gross amount of Islamic financing and investing assets, individually determined to be impaired	4,667,226	344,996	5,012,222

Collaterals

The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with investing and financing assets. The collaterals include lien on savings and investment deposits, financial guarantees, equities, properties and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	2011 AED'000	2010 AED'000
Corporate and financial guarantees	**46,990,191**	53,863,873
Property and Mortgages	**25,999,080**	32,268,139
Deposits	**945,575**	801,921
Vehicles and machineries	**787,074**	463,720

The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2011 amounts to AED 6.01 billion (2010: AED 3.9 billion).

During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 6.5 million (2010: AED 8.8 million), which has been adjusted against the outstanding receivables

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

9 Investments in Islamic Sukuk

9.1 The analysis of the Bank's investment in Islamic Sukuk as at 31 December 2011 (classified in accordance with IFRS 9) is as follows:

	2011
	AED'000
Investment in Islamic Sukuk measured at amortised cost	
Within U.A.E.	**11,946,910**
Other G.C.C. Countries	**128,899**
Rest of the World	**484,617**
Total	**12,560,426**

9.2 The analysis of the Bank's investment in Islamic Sukuk as at 31 December 2010 (classified in accordance with IAS 39) is as follows:

	2010
	AED'000
	(Restated)
Held to maturity – at amortised cost	
Within U.A.E.	6,567,730
Other G.C.C. Countries	136,705
Rest of the World	300,890
	7,005,325
Available for sale	
Within U.A.E.	1,195,151
Total	8,200,476

In accordance with IAS 39, held to maturity investments in Islamic sukuk as at 31 December 2010 were measured at amortised cost and available for sale investments in Islamic sukuk after initial recognition were re-measured at fair value with changes in fair value recognised in other comprehensive income.

10 Other investments

10.1 The analysis of the other investments as at 31 December 2011 (classified in accordance with IFRS 9).

	2011
	AED'000
Investments carried at fair value through profit or loss	**52,987**
Investments carried at fair value through other comprehensive income	**1,981,402**
	2,034,389

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

10 Other investments (continued)

The analysis of the other investments as at 31 December 2011 (classified in accordance with IFRS 9) by geography is as follows:

	31 December 2011			
	Within U.A.E. AED'000	**Other G.C.C. Countries AED'000**	**Rest of the World AED'000**	**Total AED'000**
Investments carried at fair value through profit or loss				
Quoted equity instruments	**4,305**	**-**	**48,682**	**52,987**
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	**338,571**	**161,601**	**33,602**	**533,774**
Unquoted equity instruments	**962,748**	**61,685**	**68,387**	**1,092,820**
Unquoted investment funds	**122,117**	**5,851**	**226,840**	**354,808**
	1,423,436	**229,137**	**328,829**	**1,981,402**
Total	**1,427,741**	**229,137**	**377,511**	**2,034,389**

10.2 The analysis of the other investments as at 31 December 2010 (classified in accordance with IAS 39).

	2010 AED'000 (Restated)
Investments carried at fair value through profit or loss	108,406
Available for sale investments	1,664,540
	1,772,946

The analysis of the other investments as at 31 December 2010 (classified in accordance with IAS 39) by geography is as follows:

	31 December 2010 (Restated)			
	Within U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Quoted equity instruments	1,013	78,185	29,208	108,406
Available for sale investments				
Quoted equity instruments	443,654	122,526	35,168	601,348
Unquoted equity instruments	223,148	124,430	191,624	539,202
Unquoted investment funds	157,855	9,182	356,953	523,990
	824,657	256,138	583,745	1,664,540
Total	825,670	334,323	612,953	1,772,946

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

10 Other investments (continued)

Industry distribution of other investments is as follows:

	2011 AED'000	2010 AED'000 (Restated)
Banks and other financial institutions	**715,235**	889,542
Real estate	**90,974**	338,070
Manufacturing and others	**1,228,180**	545,334
	2,034,389	1,772,946

Until 31 December 2010, unquoted available for sale investments were carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows in accordance with IAS 39.

The available for sale investments at 31 December 2010 were assessed for indicators of impairment at the end of the reporting period. The available for sale investments, quoted and unquoted were identified when the fair value of these investments were below the cost for significant or prolonged period, accordingly investments were impaired. In 2010, the impaired loss which amounted to AED 136.3 million was recognised in the consolidated income statement (refer note 47).

11 Investments in associates

11.1 Significant associates

Details of the Bank's significant associates at the end of the reporting year are as follows:

	Associates	Principal activity	Country of incorporation
1.	Bank of Khartoum	Banking	Sudan
2.	Jordan Dubai Islamic Bank	Banking	Jordan
3.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.
4.	Liquidity Management Center (B.S.C.)	Brokers	Bahrain
5.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.
6.	MESC Investment Company	Investments	Jordan

Investments have been accounted for as investment in associates when the Bank is deemed to have significant influence. At December 31, 2011, the Bank discontinued the use of the equity method, for the Bank's interest in the equity of two entities due to the loss of the significant influence as defined under IAS 28, and accounted for these investments in accordance with IFRS 9.

At the date of reassessment, the carrying value and fair values of the investments are as follows:

	2011 AED'000
Carrying amount of investments in associates at the date of reassessment	**841,817**
Less: Fair value of investments at the date of reassessment	**(841,817)**
Net gain/(loss) on reclassification of investment at FVTOCI	**-**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

11 Investments in associates (continued)

11.2 Investments in associates and share of profits/(losses)

	2011 AED'000	2010 AED'000 (Restated)
Investments in associates	**2,882,489**	3,793,183
Cumulative share of loss	**(537,668)**	(486,051)
Provision for impairment	**(8,382)**	(130,228)
	2,336,439	3,176,904

11.3 Provision for impairment of investments in associates

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**130,228**	117,991
Charge for the year (note 48)	**3,128**	12,237
Derecognized investments in associates	**(124,974)**	-
Balance at the end of the year	**8,382**	130,228

11.4 Carrying value of investment in associates

The following table illustrates summarised information of the Bank's investments in associates:

	2011 AED'000	2010 AED'000 (Restated)
Share of associates' financial positions:		
Assets	**6,532,020**	7,554,673
Liabilities	**(4,187,199)**	(4,247,540)
Net assets	**2,344,821**	3,307,133
Provision for impairment	**(8,382)**	(130,229)
	2,336,439	3,176,904
Share of associates' revenues and results:		
Revenues	**248,970**	334,026
Results	**28,551**	(1,099,891)

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

11 Investments in associates (continued)

11.5 Investment in associates by geography

Carrying value of investment in associates by geographical area are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within U.A.E.	**1,929,820**	2,625,863
Other G.C.C. Countries	**51,840**	49,835
Rest of the world	**354,779**	501,206
	2,336,439	3,176,904

As at 31 December 2011, the fair value of the Bank's interest in listed associates on the local stock exchanges, was AED 738 million (2010: AED 822 million) and the carrying amount of the Bank's interest in those associates was AED 2,007 million (2010: AED 2,243 million).

12 Properties under construction

The movement in properties under construction during the year was as follows:

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**524,165**	388,648
Additions during the year	**31,385**	135,517
Transfer to investment properties	**(450,266)**	-
Balance at the end of the year	**105,284**	524,165

13 Properties held for sale

Properties held for sale represent properties in U.A.E., Egypt and Lebanon that are registered in the name of certain subsidiaries and branches of the Bank.

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of year	**544,959**	157,269
Acquisition of controlling interest, net	**-**	399,899
Additions	**18,112**	29,747
Disposals (note 43)	**(15,296)**	(16,569)
Impaired during the year (note 48)	**(40,500)**	(20,000)
Exchange losses	**(2,803)**	(5,387)
Balance at the end of the year	**504,472**	544,959

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

14 Investment properties

14.1 Movement in investment properties is as follows:

2011	**Land AED'000**	**Other Real Estate AED'000**	**Investment properties under construction AED'000**	**Total AED'000**
Cost:				
Balance at the beginning of the year - restated	**1,223,131**	**872,977**	**-**	**2,096,108**
Additions	**45,508**	**219,378**	**-**	**264,886**
Transfer during the year	**-**	**-**	**450,266**	**450,266**
Disposals (refer note 14.2)	**(787,513)**	**-**	**-**	**(787,513)**
Exchange effect	**-**	**(11,306)**	**-**	**(11,306)**
Other	**(9,054)**	**-**	**-**	**(9,054)**
Balance at the end of the year	**472,072**	**1,081,049**	**450,266**	**2,003,387**
Accumulated depreciation/provision for impairment:				
Balance at the beginning of the year - restated	**-**	**173,197**	**-**	**173,197**
Charge for the year	**-**	**24,205**	**-**	**24,205**
Impairment, net	**-**	**19,401**	**-**	**19,401**
Exchange effect	**-**	**1,379**	**-**	**1,379**
Balance at the end of the year	**-**	**218,182**	**-**	**218,182**
Carrying amount at the end of year	**472,072**	**862,867**	**450,266**	**1,785,205**
2010 - (Restated)				
Cost:				
Balance at the beginning of the year	1,224,117	912,973	-	2,137,090
Additions	-	8,757	-	8,757
Disposals	(936)	(4,193)	-	(5,129)
Exchange effect	(50)	(44,560)	-	(44,610)
Balance at the end of the year	1,223,131	872,977	-	2,096,108
Accumulated depreciation/provision for impairment:				
Balance at the beginning of the year	300	140,502	-	140,802
Charge for the year	-	22,669	-	22,669
Impairment, net	-	13,629	-	13,629
Disposals	(300)	(626)	-	(926)
Exchange effect	-	(2,977)	-	(2,977)
Balance at the end of the year	-	173,197	-	173,197
Carrying amount at the end of year	1,223,131	699,780	-	1,922,911

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

14 Investment properties (continued)

14.2 Disposal of investment properties includes a sale of plots of land amounting AED 784.9 million. Effective 30 December 2011, the Bank entered into a sale and purchase agreement to sell properties held for future development and/or sale with a carrying value of AED 784.9 million. The salient terms and conditions of the sales and purchase agreement are as follows:

- The sales consideration is receivable on or before 30 December 2016;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the Purchaser. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof, must be of equal value (as verified by an independent real estate consultant jointly appointed by the Purchaser and Seller) to the amount due and payable under the agreement; and
- The commitments on the remaining purchase price for the plots of lands remain with the Bank.

The net sales consideration has been determined as follows:

	2011 **AED'000**
Sales consideration receivable on or before 30 December 2016	1,062,757
Deferred income on the assumption that settlement is on 30 December 2016	(277,902)
Net sales consideration	784,855
Cost of plots	(784,855)
Net gain/(loss) on sales of plots	-

14.3 Investments properties by geography are as follows:

	2011 **AED'000**	2010 AED'000 (Restated)
Land		
In U.A.E.	**420,339**	1,171,398
Rest of World	**51,733**	51,733
	472,072	1,223,131
Other real estate		
In U.A.E.	**568,037**	353,121
Rest of World	**508,548**	519,856
	1,076,585	872,977
Accumulated depreciation and impairment	**(213,718)**	(173,197)
	862,867	699,780
Investment property under construction		
In U.A.E.	**450,266**	-
	1,313,133	699,780
	1,785,205	1,922,911

14 Investment properties (continued)

14.4 The fair value of the Bank's investment properties as at 31 December 2011 is AED 2.38 billion (2010: AED 2.47 billion).

The Bank has carried out internal valuation of these properties as at 31 December 2011. The valuation were based on a discounted cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The discount rate used reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date compared with estimated current market rent, as well as changes in occupancy rates and property costs.

Investment properties includes properties with a carrying value amount of AED 443.19 million (2010: 482.16 million) have been mortgaged by one of the subsidiary as security financing obligation to other bank.

15 Receivables and other assets

	2011 AED'000	2010 AED'000 (Restated)
Accrued profit on investing, financing and sukuks	**831,793**	876,448
Receivables on sale of investment properties, net (note 14.2)	**784,855**	-
Acceptances	**656,263**	597,799
Other income receivable	**197,200**	109,100
Trade receivables	**55,164**	72,202
Cheques sent for collection	**16,863**	13,236
Advances to contractors	**39,147**	4,456
Inventories	**8,874**	14,947
Prepaid expenses	**72,954**	87,908
Qard Hassan (profit-free facilities)	**-**	8,000
Overdrawn current accounts, net	**27,751**	39,816
Deferred taxation (note 26)	**19,297**	19,300
Islamic derivative assets (note 37)	**65,996**	61,074
Others	**323,179**	392,587
	3,099,336	2,296,873

Overdrawn current accounts, net are stated net of provision for impairment amounting to AED 51.20 million (2010: AED 54.50 million).

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

16 Property, plant and equipment

2011

	Land and buildings AED'000	Plant And Machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
Balance at the beginning of the year - restated	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Additions	1,446	165	12,326	6,970	154	37,077	58,138
Disposals	-	-	(6,025)	(8,658)	(442)	-	(15,125)
Written off	-	-	(205)	(599)	-	-	(804)
Other transfers	15,926	-	3,291	15,476	-	(39,297)	(4,604)
Exchange adjustments	(99)	(230)	(3,025)	(1,670)	(50)	(84)	(5,158)
Balance at the end of the year	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Accumulated depreciation:							
Balance at the beginning of the year- restated	44,282	60,605	272,383	265,726	3,154	-	646,150
Charge for the year	20,965	3,729	39,407	56,007	205	-	120,313
Disposals	-	-	(5,307)	(8,657)	(442)	-	(14,406)
Written off	-	-	(87)	-	-	-	(87)
Exchange adjustments	-	(81)	(1,053)	(527)	(36)	-	(1,697)
Balance at the end of the year	65,247	64,253	305,343	312,549	2,881	-	750,273
Carrying amount							
Balance at the end of the year	350,811	19,810	77,927	109,342	749	22,771	581,410

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

16 Property, plant and equipment (continued)

2010 (Restated)

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
Balance at the beginning of the year	90,369	82,852	346,095	353,599	4,165	286,625	1,163,705
Acquisition of controlling interest	24,648	-	9,958	18,511	-	313	53,430
Additions	1,654	1,356	17,241	8,260	627	64,165	93,303
Disposals	(1,123)	-	(455)	-	(804)	-	(2,382)
Other transfers	283,271	-	5,082	30,643	-	(326,003)	(7,007)
Exchange adjustments	(34)	(80)	(1,013)	(641)	(20)	(25)	(1,813)
Balance at the end of the year – restated	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Accumulated depreciation:							
Balance at the beginning of the year	33,102	56,307	217,043	195,986	3,472	-	505,910
Acquisition of controlling interest	2,145	-	4,378	12,434	-	-	18,957
Charge for the year	9,035	4,317	51,549	57,527	427	-	122,855
Disposals	-	-	(303)	-	(730)	-	(1,033)
Reclassification	-	-	30	(30)	-	-	-
Exchange adjustments	-	(19)	(314)	(191)	(15)	-	(539)
Balance at the end of the year – restated	44,282	60,605	272,383	265,726	3,154	-	646,150
Carrying amount							
Balance at the end of the year – restated	354,503	23,523	104,525	144,646	814	25,075	653,086

Capital work in progress comprises cost incurred on information technology projects and civil work for branch network.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

17 Goodwill

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**17,258**	34,516
Impaired during the year (note 48)	**(17,258)**	(17,258)
Balance at the end of the year	**-**	17,258

Impairment testing of goodwill

The goodwill resulting from a business combination has been tested for impairment and accordingly the carrying value of goodwill adjusted for impairment.

18 Investments in joint ventures

18.1 Significant joint ventures

Details of the Bank's significant joint ventures at the end of reporting period are as follows:

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2011	Percentage of equity 2010
1.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	50.0%	50.0%
2.	Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50.0%	50.0%
3.	Al Rimal Development	Property development	U.A.E.	50.0%	50.0%
4.	Gulf Tankers L.L.C. (under liquidation)	Cargo and transport	U.A.E.	50.0%	50.0%

The entity listed as 4 did not conduct any operations during the current or previous periods.

18.2 Carrying value of investment in joint ventures

The Bank's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are disclosed below:

	2011 AED'000	2010 AED'000 (Restated)
Cash and balances with banks	**273**	1,186
Other investments	**763**	1,013
Properties under construction	**47,808**	47,803
Receivables and other assets	**17,961**	16,474
Property and equipment	**3,952**	5,615
Total assets	**70,757**	72,091
Total liabilities	**30,813**	32,633
Net profit for the year	**13,917**	16,045

19 Subsidiaries

The Bank's interest held directly or indirectly in the subsidiaries are as follows:

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2011	2010
1.	DIB Capital Limited	Investments and financial services	U.A.E.	95.5%	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
3.	Tamweel P.J.S.C.	Financing and investment	U.A.E	58.3%	58.3%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Millennium Capital Holding P.S.C.	Financing & investing	U.A.E.	95.5%	95.5%
6.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
7.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
8.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	100.0%	100.0%
9.	Emirates REIT Management Private Limited	Properties management	U.A.E	60.0%	60.0%
10.	Emirates REIT CIEC	Real Estate Fund	U.A.E	63.7%	-
11.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	96.0%
12.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	96.0%
13.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
14.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
15.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
16.	Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
17.	Petra Limited	Investments	Cayman Islands	100.0%	100.0%
18.	Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	U.A.E.	75.5%	75.5%
19.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
20.	Tamweel Funding Limited	Sukuk	Jersey	58.3%	58.3%
21.	Tamweel Sukuk Limited	Sukuk	Cayman Islands	58.3%	58.3%
22.	Tamweel ESOT Limited	Employees share options	British Virgin Islands	58.3%	58.3%
23.	Tamweel Properties & Investments L.L.C	Real estate development	U.A.E	58.3%	58.3%
24.	Tahfeez Middle East Limited	General trading	U.A.E	58.3%	58.3%

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

19 Subsidiaries (continued)

The following Special Purpose Vehicles ("SPV") were formed to manage certain transactions including funds, and are expected to be closed upon completion of transactions.

	SPV	Principal activity	Country of incorporation	Percentage of equity 2011	2010
25.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
26.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
27.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
28.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
29.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
30.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
31.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
32.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
33.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
34.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
35.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
36.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
37.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
38.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
39.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
40.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
41.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
42.	Bulwark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
43.	Optimum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
44.	Rubicon Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
45.	Osiris Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
46.	Lotus Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
47.	Premiere Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
48.	Landmark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
49.	Blackstone Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
50.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
51.	Momentum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
52.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%

In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 5, 7, 14, 15, 18 and 41 to 52 are also beneficially held by the Bank through nominee arrangements.

The entity listed as 8 did not conduct any operations during the current or previous periods.

20 Business combination - Acquisition of Tamweel P.J.S.C.

Tamweel P.J.S.C. ("the Company"), a company listed in Dubai Financial Market and engaged in Islamic Sharia'a compliant financing and investment activities became a subsidiary of the Bank on the 4th of November 2010. The Bank acquired further shares of the Company from major shareholders thereby acquiring a controlling interest. The acquisition was done to unfold the value of the Company by providing long term strategic support. The acquisition helped the Bank in becoming largest retail Islamic home financing bank in the U.A.E.

The fair value of identifiable assets and liabilities of the Company as at the acquisition date was as follows:

	Recognised on acquisition 2010 AED'000
Cash and balances with banks	236,758
Islamic financing and investing assets	9,758,677
Other investments	46,859
Properties held for sale	399,899
Receivables and other assets	98,060
Property and equipment	34,473
Total assets	10,574,726
Financing obligation	7,528,058
Accounts payable and accruals	346,668
Total liabilities	7,874,726
Fair value of net assets – 100%	2,700,000
Consideration for acquisition	935,600
Less: fair value of identifiable net assets acquired	(1,572,638)
Gain on acquiring controlling interest	637,038

The fair value of the net assets was determined by the Bank on the basis of valuation of the Company carried by an external valuer that was not related to the Bank. The valuation of the Company was based on generally accepted business valuation techniques including the dividend discount model and adjusted book value method.

Consideration of acquisition

	2010 AED'000
Cash	318,609
Transfer of treasury shares	56,121
Fair value of available for sale shares	560,870
Total consideration	935,600

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

20 Business combination - Acquisition of Tamweel P.J.S.C (continued)

The transaction cost amounting to AED 1.1 million was excluded from the consideration transferred and have been recognised as an expenses in the consolidated income statement for the year ended 31 December 2010.

Non-controlling interest of the Company was recognised at the acquisition date and was measured at cost.

The total revenue and net profit of the Bank for the year ended 31 December 2010 included AED 89.9 million and AED 6.1 million respectively in respect of post acquisition period. Had the Company been acquired on 1 January 2010, the total revenue and net profit of the Bank for 2010 would had increased by AED 607 million and AED 21.4 million respectively.

21 Customers' deposits

	2011 AED'000	2010 AED'000 (Restated)
a) By type:		
Current accounts	**17,784,560**	15,087,566
Saving accounts	**10,848,614**	10,047,003
Investment deposits	**35,912,221**	38,124,012
Margin accounts	**192,765**	188,102
Depositors' investment risk reserve (note 52)	**33,157**	387
	64,771,317	63,447,070
b) By contractual maturity:		
Demand deposits	**27,472,555**	24,876,422
Deposits due within 3 months	**17,963,826**	18,843,284
Deposits due within 6 months	**6,998,065**	7,269,059
Deposits due within 1 year	**10,586,682**	12,310,178
Deposits due over 1 year	**1,750,189**	148,127
	64,771,317	63,447,070
c) By geographical areas:		
Within U.A.E.	**62,910,730**	61,122,089
Outside U.A.E.	**1,860,587**	2,324,981
	64,771,317	63,447,070
d) By currency:		
U.A.E. Dirham	**58,176,803**	58,724,097
Other currencies	**6,594,514**	4,722,973
	64,771,317	63,447,070

22 Due to banks and financial institutions

	2011 AED'000	2010 AED'000 (Restated)
Current accounts	**218,294**	51,517
Investment deposits	**3,834,139**	4,357,910
	4,052,433	4,409,427

Due to banks and financial institutions by geography is as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within U.A.E.	**3,879,534**	3,993,101
Outside U.A.E.	**172,899**	416,326
	4,052,433	4,409,427

23 Sukuk financing instruments

	2011 AED'000	2010 AED'000 (Restated)
23.1 Sukuk financing instruments issued by the Bank	**2,357,075**	2,357,075
23.2 Sukuks financing instruments issued by a subsidiary	**1,816,908**	1,818,940
	4,173,983	4,176,015

23.1 Sukuk financing instruments issued by the Bank

During 2007 the Bank, through a Sharia'a compliant Sukuk Financing arrangement, raised a US Dollar denominated medium term finance amounting to AED 2,754.75 million (USD 750 million). The sukuk are listed on the NASDAQ Dubai and the London Stock Exchange.

The terms of the arrangement include transfer of certain identified assets (the "Co Owned Assets") including original leased and musharakat assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to a Sukuk company, DIB Sukuk Company Limited – (the "Issuer"), especially formed for the sukuk transaction. The assets are in the control of the Bank and shall continue to be serviced by the Bank. The sukuk certificates mature during March 2012.

The Issuer will pay the quarterly distribution amount from returns received in respect of the Co Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at the exercise price.

The sukuks bear a variable profit rate payable to the investors based on the rate of 3 months LIBOR plus 0.33% per annum. Such profits are payable on a quarterly basis.

23 Sukuk financing instruments (continued)

23.1 Sukuk financing instruments issued by the Bank (continued)

During 2010, sukuks amounting to AED 58 million (USD 15.8 million) were bought back at a discount, including buy back through a cash tender offer to sukuk holders. The Bank recognised AED 6.4 million in 2010 as gain on sukuk buy back which is included under other income. These sukuk certificates will be cancelled upon maturity when the Bank will re-purchase the Co Owned Assets.

23.2 Sukuks financing instruments issued by a subsidiary

During 2008, a subsidiary of the Bank issued Sharia'a compliant, non-convertible sukuk in the form of Trust Certificates for the total value of AED 1,100 million (at a rate of 3 months EIBOR Plus 0.225% per annum) and convertible sukuk for a total value of USD 300 million (at a fixed profit rate of 4.31% per annum), which are listed on NASDAQ Dubai. The sukuk certificates mature in 2013.

In accordance with the terms of the subscription, each Trust Certificate may be redeemed at the option of the Certificate holder or the subsidiary as follows:

a. At the option of the Certificate holder through "Voluntary Early Redemption" at any time one year after the issue date subject to satisfying certain conditions;
b. At the option of the subsidiary at any time 3 years after the issue date through "Optional Partial Redemption" subject to satisfying certain condition.

In both the options, the subsidiary will either issue the share of the subsidiary at the relevant exchange price or cash will be paid.

At the time of final maturity, any remaining Trust Certificates will be redeemed in full by a subsidiary in cash at face value plus any unpaid profit amount.

24 Medium term wakala finance

The Bank opted to re-categorise wakala deposits received in 2008 from UAE Ministry of Finance amounting to AED 3.75 billion to Tier 2 qualifying finance ("Tier 2 finance"). The conversion process has been approved by the Shareholders in the Extraordinary General Meeting held in April 2009. The wakala deposits provided by the UAE Ministry of Finance (the Muwakkil) to the Bank (the Wakeel) will be used for investments for a tenor of seven years commencing from the date of re-categorisation and will mature in December 2016. Wakala profit will be paid every three months based on the expected profit rate range of 4.00% - 5.25% per annum.

In accordance with the terms of wakala agreement, the Muwakkil's rights and claims on the Wakeel in respect of wakala are wholly subordinated to the rights and claims of all other non subordinated creditors.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

25 Payables and other liabilities

	2011 AED'000	2010 AED'000 (Restated)
Depositors' share of profits (note 49)	**259,458**	329,928
Payable for properties	**240,933**	248,153
Bankers cheques	**155,661**	185,822
Sundry deposits	**377,468**	429,357
Trade payables	**449,174**	411,411
Vendor payable for investing and financing assets	**55,778**	116,487
Provision for employees' end-of-service benefits (note 27)	**110,152**	101,737
Acceptances payable	**656,263**	597,799
Unclaimed dividends	**35,651**	52,121
Directors' remuneration	**5,350**	4,800
Payable to contractors	**24,848**	18,274
Fund transfer and remittances	**31,734**	51,508
Investments related payable	**293,585**	293,585
Cheques received for collection	**413**	465
Provision for taxation (note 26)	**5,346**	3,623
Islamic derivative liabilities (note 37)	**23,897**	14,029
Other	**817,644**	820,824
	3,543,355	3,679,923

26 Taxation

26.1 Provision for taxation

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**3,623**	-
Charge for the year	**7,740**	5,037
Tax paid	**(6,017)**	(1,414)
Balance at the end of the year (note 25)	**5,346**	3,623

26.2 Deferred tax asset

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**19,300**	18,057
Additions during the year	**958**	1,545
Exchange effect	**(961)**	(302)
Balance at the end of the year (note 15)	**19,297**	19,300

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

26 Taxation (continued)

26.3 Tax expense for the year

	2011 AED'000	2010 AED'000 (Restated)
Current taxation	**(7,740)**	(5,037)
Deferred taxation	**958**	1,545
Income tax expense	**(6,782)**	(3,492)

27 Provision for employees' end-of-service benefits

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**101,737**	89,554
Charge during the year	**19,248**	27,140
Paid during the year	**(10,833)**	(14,957)
Balance at the end of the year (note 25)	**110,152**	101,737

28 Accrued Zakat

28.1 Zakat on shareholders' equity

	2011 AED'000	2010 AED'000 (Restated)
Zakat charged to the consolidated statement of changes of equity	**152,244**	146,326
Zakat accounted and paid directly by other investee companies	**(11,668)**	-
Shareholders' zakat for the year	**140,576**	146,326

28.2 Zakat Payable

	2011 AED'000	2010 AED'000 (Restated)
Zakat on Shareholders' equity*	**140,151**	146,326
Zakat accounted by subsidiaries	**(19,952)**	-
Net Zakat payable on shareholders' equity	**120,199**	146,326
Zakat on depositors' investment risk reserve (note 52)	**877**	10
	121,076	146,336

* Zakat on shareholders' equity is stated net of AED 425,000 relating 2010.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

29 Share capital

	2011		2010 (Restated)	
	Number of Shares'000	**Amount in AED'000**	Number of shares'000	Amount in AED'000
Authorised				
Ordinary shares of AED 1 each	**3,797,054**	**3,797,054**	3,797,054	3,797,054
Issued and fully paid up				
Balance at the beginning of the year	**3,797,054**	**3,797,054**	3,617,505	3,617,505
Bonus shares	**-**	**-**	179,549	179,549
Balance at the end of the year	**3,797,054**	**3,797,054**	3,797,054	3,797,054

During 2010, 179,549,000 shares of AED 1 each were issued as bonus shares.

30 Reserves

	Statutory reserve AED'000	**Donated land reserve AED'000**	**General reserve AED'000**	**Exchange translation reserve AED'000**	**Total AED'000**
As at 1 January 2010	2,731,879	276,139	2,350,000	(77,841)	5,280,177
Exchange adjustments	-	-	-	(13,700)	(13,700)
As at 1 January 2011 - restated	2,731,879	276,139	2,350,000	(91,541)	5,266,477
Exchange adjustments	-	-	-	(30,677)	(30,677)
Other movements	-	(9,054)	-	-	(9,054)
As at 31 December 2011	**2,731,879**	**267,085**	**2,350,000**	**(122,218)**	**5,226,746**

Statutory reserve
Article 192 of the U.A.E. 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 other than in circumstances stipulated by law.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital.

Donated land reserve
The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (note 14). The donated land reserve represents 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 is subject to the approval of the Shareholders at the annual general meeting.

Exchange translation reserve
Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

31 Investments fair value reserve

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**(243,166)**	(723,713)
Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (note 2.1)	**(441,973)**	-
Net unrealised losses on other investments carried at FVTOCI	**(146,724)**	-
Net unrealised gain on available for sale investments	**-**	606,140
Reclassification of realised loss on disposal of other investments carried at FVTOCI	**14**	-
Reclassification of realised gain on disposal of available for sale investments to profit or loss	**-**	(125,593)
Balance at the end of the year	**(831,849)**	(243,166)

32 Dividends paid and proposed

	2011 AED'000	2010 AED'000 (Restated)
Dividend proposed		
Cash dividend: (2011: AED 0.10 per share)	**379,705**	-
Dividend proposed and paid		
Cash dividend: (2010: AED 0.10 per share)	**-**	379,705

33 Hedging reserve

During 2009 the Bank discontinued its cash flow hedge of a forecast transaction which resulted in reclassification of associated cumulative gains during 2011 of AED 10.6 million (2010: AED 39.9 million). Refer to note 41.

34 Employee stock Ownership plan (ESOP)

The Bank commenced Employee Stock Ownership Plans (ESOP) to recognise and retain key employees in 2004. The plans give employees the right to own the Bank's shares at the issue price.

The following share based payment arrangements were in existence in current and previous years.

	Issue year	*No of shares*	*Grant date*	*Expiry date*	*Exercise price*	*Fair value at grant date*
1	2006	4,113,000	January 2006	February 2010	2	26.7
2	2010	1,560,000	April 2010	March 2012	-	2.0

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

34 Employee stock Ownership plan (ESOP) (continued)

The shares were granted under nominee arrangements, to various categories of employees on condition that the employees continue in the service of the Bank for an agreed minimum period ranging between two to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares would revert back to the Bank. Generally, the management considers it unlikely that a significant amount of shares would revert back to the Bank on account of employees leaving before completing their vesting period. The fair value of existing ESOP in current and previous years on grant date and adjusted charge over vesting period is as follows.

Year	*Current charge to consolidated income statement* AED '000	*Charge to consolidated income statement at grant date* AED '000
2006	30,312	30,312
2007	36,846	36,846
2008	18,049	25,085
2009	5,444	6,856
2010	1,580	3,594
2011	1,653	1,653
2012	551	551
Total	94,435	104,897

35 Non-controlling interests

Non-controlling 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.

36 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 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 and guarantees 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.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

36 Contingent liabilities and commitments (continued)

Financing-related financial instruments (continued)

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

	2011 AED'000	2010 AED'000 (Restated)
Contingent liabilities:		
Letters of guarantee	**7,510,949**	8,774,047
Letters of credit	**2,081,825**	2,535,666
	9,592,774	11,309,713
Commitments:		
Capital expenditure commitments	**316,575**	388,932
Irrevocable undrawn facilities commitments	**8,756,501**	12,567,539
	9,073,076	12,956,471
Total contingent liabilities and commitments	**18,665,850**	24,266,184

37 Islamic derivatives

The table below shows the positive and negative fair values of Islamic derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of an Islamic derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of Islamic derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2011: ***Notional amounts by term to maturity***

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	**27,164**	**23,897**	**7,486,069**	**1,924,071**	**5,561,998**	**-**	**-**	**-**
Islamic profit rate Swaps	**38,832**	**-**	**9,299,959**	**-**	**6,588,590**	**146,920**	**1,941,443**	**623,006**
	65,996	**23,897**	**16,786,028**	**1,924,071**	**12,150,588**	**146,920**	**1,941,443**	**623,006**

37 Islamic derivatives (continued)

31 December 2010: *Notional amounts by term to maturity - restated*

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	15,127	14,029	5,308,254	2,552,713	2,748,360	7,181	-	-
Islamic profit rate Swaps	45,947	-	9,995,651	-	-	9,324,101	-	671,550
	61,074	14,029	15,303,905	2,552,713	2,748,360	9,331,282	-	671,550

The Bank has positions in the following types of derivative.

Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

Islamic Swaps

Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and strategic hedging (see below). Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

For profit rate risk, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into profit rate swaps. As strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

38 Income from Islamic financing and investing assets

	2011 AED'000	2010 AED'000 (Restated)
Islamic financing assets		
Commodities murabahat	**306,844**	416,517
International murabahat	**7,839**	10,023
Vehicles murabahat	**443,779**	486,552
Real estate murabahat	**223,674**	258,304
Total murabahat income	**982,136**	1,171,396
Istisna'a	**449,051**	471,337
Home finance ijara	**590,884**	188,907
Ijara	**449,692**	432,505
Salam finance	**264,979**	52,349
Income from Islamic financing assets	**2,736,742**	2,316,494
Islamic Investing assets		
Musharakat	**458,902**	597,013
Mudarabat	**200,455**	270,604
Wakalat	**52,407**	37,584
Income from Islamic investing assets	**711,764**	905,201
Total income from Islamic financing and investing assets	**3,448,506**	3,221,695

Income from investing and financing assets is presented net of forfeited income of AED 4.2 million (2010: AED 6.2 million).

39 Income from International murabahats and wakala, short term

	2011 AED'000	2010 AED'000 (Restated)
Income from International murabahats from Banks and financial institutions	**6,707**	13,328
Income from Investment and wakala deposits	**17,326**	21,199
Income from International murabahats with Central Bank	**59,100**	1,786
	83,133	36,313

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

40 Gain from other investments

	2011 AED'000	2010 AED'000 (Restated)
Dividend income	**35,679**	25,693
Realized gain on disposal of investments	**3,898**	123,652
Unrealized loss on revaluation of investments	**(541)**	(13,182)
	39,036	136,163

Dividend income is presented net of forfeited income of AED 3.4 million (2010: AED 2.7 million).

41 Commissions, fees, and foreign exchange income

	2011 AED'000	2010 AED'000 (Restated)
Trade related commission and fees	**188,966**	170,933
Other commissions and fees	**401,391**	371,430
Gains on unilateral promise to buy/sell currencies	**90,436**	102,836
Cumulative gains on hedging reserve reclassified to profit or loss (note 33)	**10,656**	39,944
Fair value of Islamic derivatives	**9,138**	1,887
	700,587	687,030

42 Income from investment properties

	2011 AED'000	2010 AED'000 (Restated)
Net rental income	**70,042**	72,165
Gain on sale of investment properties	**-**	18,001
	70,042	90,166

Net rental income is presented net of forfeited income of AED 0.2 million (2010: AED 0.2 million).

43 Income from sale of properties held for sale

	2011 AED'000	2010 AED'000 (Restated)
Sales proceeds	**30,686**	31,067
Cost of sale (note 13)	**(15,296)**	(16,569)
	15,390	14,498

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

44 Other income

	2011 AED'000	2010 AED'000 (Restated)
Services income, net	**65,402**	85,059
Other	**65,435**	54,947
	130,837	140,006

45 Personnel expenses

	2011 AED'000	2010 AED'000 (Restated)
Salaries and wages	**883,653**	779,673
Staff terminal benefits	**19,248**	27,140
Share based payments	**1,653**	1,581
Other	**4,329**	9,425
	908,883	817,819

46 General and administrative expenses

	2011 AED'000	2010 AED'000 (Restated)
Administrative expenses	**90,977**	90,033
Depreciation of property, plant and equipment (note 16)	**120,313**	122,855
Rental charges under operating leases	**67,682**	77,194
Communication costs	**61,672**	72,638
Premises and equipment maintenance costs	**108,386**	94,692
Printing and stationery	**8,873**	13,284
Other	**105,506**	72,247
	563,409	542,943

47 Impairment loss on financial assets, net

	2011 AED'000	2010 AED'000 (Restated)
Net provision for Islamic financing assets	**666,702**	617,287
Net provision for Islamic investing assets	**310,598**	36,149
Net provision for receivables and other assets	**17,664**	11,328
Impairment loss on available for sale investments	**-**	136,291
	994,964	801,055

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

48 Impairment loss on non-financial assets, net

	2011 AED'000	2010 AED'000 (Restated)
Impairment loss on investment in associates (note 11)	**3,128**	12,237
Impairment of investment in joint venture	**11,661**	-
Impairment of investment properties (note 14)	**19,401**	13,329
Impairment of properties held for sale (note 13)	**40,500**	20,000
Impairment of goodwill (note 17)	**17,258**	17,258
	91,948	62,824

49 Depositors' share of profits

	2011 AED'000	2010 AED'000 (Restated)
Share for the year	**1,386,808**	1,435,631
Less: Pertaining to depositors' investment risk reserve (note 52)	**(636)**	(511)
Transfer (to)/from depositors' investment risk reserve, net (note 52)	**(33,011)**	42,000
	1,353,161	1,477,120
Less: Paid during the year	**(1,093,703)**	(1,147,192)
Depositors' share of profit payable (note 25)	**259,458**	329,928
Share of profits accrued to customers and financial institutions are as follows:		
Investment and savings deposits from customers	**699,941**	996,491
Wakala and other investment deposits from banks and customers	**560,788**	409,884
Profit accrued on sukuk financing instrument	**126,079**	29,256
	1,386,808	1,435,631

50 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2011	2010 (Restated)
Profit for the year net of directors' remuneration of AED 5,350,000 (2010: AED 4,800,000)	**1,004,791,000**	548,353,000
Weighted average number of shares of AED 1 each outstanding during the year	**3,797,054,000**	3,776,269,000
Basic and diluted earnings per share in AED	**0.26**	0.15

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

51 Cash and cash equivalents

	2011 AED'000	2010 AED'000 (Restated)
Cash and balances with Central Banks	**12,952,319**	11,247,225
Due from banks and financial institutions	**3,043,096**	2,356,531
	15,995,415	13,603,756
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(6,521,845)**	(3,120,075)
	9,473,570	10,483,681

52 Depositors' investment risk reserve

	2011 AED'000	2010 AED'000 (Restated)
Balance, beginning of the year – as reported	**387**	41,886
Share of profit for the year (note 49)	**636**	511
Zakat for the year (note 28)	**(877)**	(10)
Transfer from / (to) depositors' share of profit during the year, net (note 49)	**33,011**	(42,000)
Balance, end of the year (note 21)	**33,157**	387

Depositors' investment risk 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 Sharia'a Supervisory Board. Zakat on depositors' investment risk reserve is included under accrued Zakat.

53 Related party transactions

The Bank enters into arms length transactions with Shareholders, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

53 Related party transactions (continued)

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

	Major Shareholders	Directors and key management personnel	Associates	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2011				
Islamic financing and investing assets	**612,167**	**34,468**	**390,000**	**1,036,635**
Customers' deposits	**2,676,188**	**132,076**	**80,272**	**2,888,536**
Income from Islamic financing and investing assets	**37,823**	**2,384**	**24,178**	**64,385**
Depositors' share of profits	**82,820**	**23,464**	**1,741**	**108,025**
Contingent liabilities	**-**	**8**	**700**	**708**
31 December 2010 - restated				
Islamic financing and investing assets	1,836,500	183,701	463,475	2,483,676
Customers' deposits	2,847,087	43,772	172,052	3,062,911
Income from Islamic financing and investing assets	56,914	10,662	4,321	71,897
Depositors' share of profits	107,538	663	171	108,372
Contingent liabilities	-	303	700	1,003

No impairment allowances have been recognized against financing and investing assets extended to related parties or contingent liabilities issued in favor of related parties during the year ended 31 December 2011 (31 December 2010 : Nil).

The compensation paid to key management personnel of the Bank is as follows:

	2011	2010
	AED'000	AED'000 (Restated)
Salaries and other benefits	**26,205**	28,915
Employee terminal benefits	**1,889**	1,948

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

54 Segmental information

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Reportable segments

The Bank's reporting segments are organised into four major business segments as follows:

i) Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, islamic card and funds transfer facilities and trade finance facilities.
ii) Wholesale Banking:	Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.
iii) Real estate:	Property development and other real estate investments.
iv) Treasury:	Principally responsible for managing the Bank's overall liquidity and market risk and provide treasury services to customers. Treasury also run its own Islamic Sukuk portfolio and specialise financial instruments book to manage the above risk.
iv) Other:	Functions other then above core lines of businesses.

Transactions between segments are conducted at estimated profit rates which approximate market rates on an arm's length basis.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

54 Segmental information (continued)

Reportable segments

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December:

	Retail and business Banking		Wholesale banking		Real estate		Treasury		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Net operating revenue	**1,835,901**	1,615,121	**1,227,434**	1,076,996	**(164,353)**	(215,074)	**461,320**	360,219	**257,753**	435,656	**3,618,055**	3,272,918
Share of profit /(loss) of associates	**-**	-	**37,723**	25,614	**(9,172)**	(1,125,505)	**-**	-	**-**	-	**28,551**	(1,099,891)
Gain on acquiring controlling interest	**-**	-	**-**	-	**-**	-	**-**	-	**-**	637,038	**-**	637,038
Operating expense	**(1,047,377)**	(893,736)	**(243,176)**	(297,274)	**(81,351)**	(67,162)	**(21,689)**	(20,623)	**(102,904)**	(104,636)	**(1,496,497)**	(1,383,431)
Provision for impairment	**(247,764)**	(178,141)	**(837,957)**	(677,285)	**-**	-	**-**	-	**(1,191)**	(8,453)	**(1,086,912)**	(863,879)
Profit for the year before tax	**540,760**	543,244	**184,024**	128,051	**(254,876)**	(1,407,741)	**439,631**	339,596	**153,658**	959,605	**1,063,197**	562,755
Income tax											**(6,782)**	(3,492)
Profit for the year											**1,056,415**	559,263

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

54 Segmental information (continued)

Reportable segments

The following table presents assets, liabilities, equity and capital expenditure regarding the Bank's business segments:

	Retail and business banking		Wholesale Banking		Real estate		Treasury		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Segment assets	**23,916,930**	23,718,232	**31,791,056**	38,116,923	**3,874,977**	4,601,376	**13,940,058**	9,598,156	**17,065,443**	13,849,714	**90,588,464**	89,884,401
Segment liabilities and equity	**47,519,470**	46,862,730	**20,893,587**	21,196,665	**897,844**	293,726	**8,716,516**	8,925,308	**12,561,047**	12,605,972	**90,588,464**	89,884,401
Capital expenditure	**17,441**	27,991	**17,441**	27,991	**-**	-	**11,628**	18,661	**11,628**	18,660	**58,138**	93,303

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

54 Segmental information (continued)

Geographical information

Although the management of the Bank is based primarily on business segments, the Bank operates in two geographic markets: U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international. The following table shows the distribution of the Bank's operating income by geographical segment:

	Domestic		*International*		*Total*	
	2011	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Gross income	**4,608,770**	3,161,654	**424,644**	447,004	**5,033,414**	3,608,658

The following table shows the distribution of the Bank's total assets, total liabilities and capital expenditure by geographical segment:

	Domestic		*International*		*Total*	
	2011	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Financial assets	**83,232,379**	80,035,925	**1,942,150**	1,512,284	**85,174,529**	81,548,209
Non-financial assets	**1,363,564**	3,820,934	**4,050,371**	4,515,258	**5,413,935**	8,336,192
Total assets	**84,595,943**	83,856,859	**5,992,521**	6,027,542	**90,588,464**	89,884,401
Total liabilities and equity	**85,856,351**	84,503,973	**4,732,113**	5,380,428	**90,588,464**	89,884,401
Capital expenditure	**46,785**	78,869	**11,353**	14,434	**58,138**	93,303

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

55 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2011

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	2,353,995	5,081,320	5,517,004	-	-	12,952,319
Due from banks and financial institutions	2,529,596	513,500	-	-	-	3,043,096
Islamic financing and investing assets	4,954,901	3,201,254	8,147,347	21,965,054	13,317,532	51,586,088
Investment in Islamic sukuk	13	1,951	12,385	11,260,998	1,285,079	12,560,426
Other investments	-	-	586,761	1,447,628	-	2,034,389
Investments in associates	-	-	-	2,336,439	-	2,336,439
Properties under construction	-	-	-	105,284	-	105,284
Properties held for sale	-	-	-	504,472	-	504,472
Investment properties	-	-	-	1,785,205	-	1,785,205
Receivables and other assets	42,417	88,028	2,900,413	62,634	5,844	3,099,336
Property, plant and equipment	9,595	18,642	82,157	142,375	328,641	581,410
Goodwill	-	-	-	-	-	-
Total assets	9,890,517	8,904,695	17,246,067	39,610,089	14,937,096	90,588,464
Liabilities:						
Customers' deposits	8,200,872	6,781,147	28,294,049	21,472,142	23,107	64,771,317
Due to banks and other financial institutions	451,096	125,275	1,327,135	2,148,927	-	4,052,433
Sukuk financing instruments	-	2,357,074	-	1,816,909	-	4,173,983
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	-	-	121,076	-	-	121,076
Equity	-	-	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	10,235,124	9,437,387	30,933,564	29,327,158	10,655,231	90,588,464
Net maturities gap	(344,607)	(532,692)	(13,687,497)	10,282,931	4,281,865	-

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

55 Maturity analysis of assets and liabilities (continued)

At 31 December 2010 - restated

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	4,135,310	4,310,176	2,801,739	-	-	11,247,225
Due from banks and financial institutions	395,530	1,638,868	322,133	-	-	2,356,531
Islamic financing and investing assets	5,746,037	2,985,310	6,903,828	21,459,918	20,075,974	57,171,067
Investment in Islamic sukuk	14	-	240,339	6,630,716	1,329,407	8,200,476
Other investments	-	-	706,995	1,065,951	-	1,772,946
Investments in associates	-	-	-	3,176,904	-	3,176,904
Properties under construction	-	-	-	524,165	-	524,165
Properties held for sale	-	-	135,368	409,591	-	544,959
Investment properties	-	-	-	1,922,911	-	1,922,911
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,843	2,296,873
Property, plant and equipment	9,887	19,227	85,100	199,462	339,410	653,086
Goodwill	-	-	-	17,258	-	17,258
Total assets	10,347,290	9,034,525	13,288,738	35,463,214	21,750,634	89,884,401
Liabilities:						
Customers' deposits	9,098,359	6,596,396	27,085,844	20,643,365	23,106	63,447,070
Due to banks and other financial institutions	183,309	435,594	1,747,226	2,043,298	-	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	-	4,176,015
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Equity	-	-	379,705	(243,166)	10,136,548	10,273,087
Total liabilities and equity	10,716,133	7,298,417	30,890,697	27,066,957	13,912,197	89,884,401
Net maturities gap	(368,843)	1,736,108	(17,601,959)	8,396,257	7,838,437	-

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

56 Financial assets and liabilities

56.1 The table below illustrates the classification and measurements of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2011.

	Original measurement Category IAS 39	**New measurement Category IFRS 9**	**Original carrying amount AED'000**	**New carrying amount AED'000**
Cash and balances with central banks	Amortised cost	Amortised cost	**11,247,225**	**11,247,225**
Due from banks and financial institutions	Amortised cost	Amortised cost	**2,356,531**	**2,356,531**
Islamic financing and investing assets	Financing and receivables	Amortised cost	**57,171,067**	**57,171,067**
Investment in Islamic sukuk				
- Held to maturity	Held to maturity	Amortised cost	**7,005,325**	**7,005,325**
- Available for sale	Available for sale	Amortised cost	**1,195,151**	**1,190,619**
Other investments				
Investment carried at fair value through income statement				
- Equity instruments held for trading	FVTPL	FVTPL	**1,011**	**1,011**
- Equity instruments designated as at FVTPL	FVTPL	FVOCI	**107,395**	**107,395**
Available for sale				
- Quoted Equity instruments	Available for sale	FVOCI	**601,348**	**601,348**
- Unquoted Equity instruments	Available for sale at cost	FVOCI	**1,063,192**	**589,681**
Receivables and other assets	Amortised cost	Amortised cost	**1,960,509**	**1,960,509**
	FVTPL	FVTPL	**61,074**	**61,074**
			82,769,828	**82,291,785**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

56 Financial assets and liabilities (continued)

56.2 The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts under IFRS 9 as at 31 December 2011.

At 31 December 2011

	Fair value through OCI AED'000	**Fair value through profit and loss AED'000**	**Amortised cost AED'000**	**Carrying amount AED'000**
Financial assets				
Balances with central banks	-	-	**11,457,901**	**11,457,901**
Due from banks and financial institutions	-	-	**3,043,096**	**3,043,096**
Islamic financing and investing assets	-	-	**51,586,088**	**51,586,088**
Investment in Islamic sukuk	-	-	**12,560,426**	**12,560,426**
Other investments	**1,981,402**	**52,987**	-	**2,034,389**
Receivables and other assets	-	**65,996**	**2,932,215**	**2,998,211**
	1,981,402	**118,983**	**81,579,726**	**83,680,111**
Financial liabilities				
Customer deposits	-	-	**64,771,317**	**64,771,317**
Due to banks and other financial institutions	-	-	**4,052,433**	**4,052,433**
Sukuk financing instruments	-	-	**4,173,983**	**4,173,983**
Medium term wakala finance	-	-	**3,752,543**	**3,752,543**
Other liabilities	-	**23,897**	**3,519,458**	**3,543,355**
	-	**23,897**	**80,269,734**	**80,293,631**

The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts under IAS 39 as at 31 December 2010:

At 31 December 2010 - restated

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	9,872,471	9,872,471
Due from banks and financial institutions	-	-	-	2,356,531	2,356,531
Islamic financing and investing assets	57,171,067	-	-	-	57,171,067
Investment in Islamic sukuk	-	1,195,151	-	7,005,325	8,200,476
Other investments	-	1,664,540	108,406	-	1,772,946
Receivables and other assets	2,113,644	-	61,074	-	2,174,718
	59,284,711	2,859,691	169,480	19,234,327	81,548,209
Financial liabilities					
Customer deposits	-	-	-	63,447,070	63,447,070
Due to banks and other financial institutions	-	-	-	4,409,427	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	4,176,015
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	14,029	3,665,894	3,679,923
	-	-	14,029	79,450,949	79,464,978

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

57 Fair vales 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. Differences can therefore arise between book value under the historical cost method and fair value estimates.

57.1 Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statement approximate their fair values.

2011	**Carrying amount AED'000**	**Fair value AED'000**
Investments in Islamic Sukuk	**12,560,426**	**12,460,931**

2010 - restated	Carrying amount AED'000	Fair value AED'000
Investments in Islamic Sukuk	7,005,325	6,488,599

57.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

Valuation of financial instruments recorded at fair value, is based on quoted market prices and valuation techniques.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair value of unilateral promise to buy/sell currencies and Islamic swaps is set out in note 37.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

57 Fair vales of financial instruments (continued)

57.3 Fair value measurements recognised in the consolidated statement of financial position

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities and investments in Islamic sukuk.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC Islamic derivative contracts. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unquoted equity investments and Islamic financing instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The table below summarises the fair value of financial instruments of the Bank's financial instruments according to fair value hierarchy.

At 31 December 2011

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	**52,987**	**-**	**-**	**52,987**
Islamic derivative financial assets held for trading	**-**	**65,996**	**-**	**65,996**
Fair value through OCI financial assets				
Quoted equities	**533,774**	**-**	**-**	**533,774**
Unquoted equities	**-**	**-**	**1,447,628**	**1,447,628**
Total	**586,761**	**65,996**	**1,447,628**	**2,100,385**
Financial liabilities at FVTPL				
Islamic derivative financial liabilities held for trading	**-**	**23,897**	**-**	**23,897**
Total	**-**	**23,897**	**-**	**23,897**

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

57 Fair vales of financial instruments (continued)

57.3 Fair value measurements recognised in the consolidated statement of financial position (continued)

At 31 December 2010 - restated

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	108,406	-	-	108,406
Islamic derivative financial assets held for trading	-	61,074	-	61,074
Available-for-sale financial assets				
Quoted equities	601,348	-	-	601,348
Investment in Islamic sukuk	1,195,151	-	-	1,195,151
Total	1,904,905	61,074	-	1,965,979
Financial liabilities at FVTPL				
Islamic derivative financial liabilities held for trading	-	14,029	-	14,029
Total	-	14,029	-	14,029

There were no transfers between Level 1 and 2 in the year.

Reconciliation of Level 3 fair value measurement of financial assets at 31 December 2011 is as follows:

	Total AED'000
Balance at the beginning of the year - restated	-
Classified from unquoted available for sale investments to FVTOCI	**1,063,192**
IFRS – 9 related adjustments	**(473,511)**
Gains or losses in other comprehensive income	**25,971**
Reclassification of investment in associates to financial assets designated as at FVTOCI	**841,817**
Purchases	**5,510**
Disposal / settlement	**(15,351)**
Balance at the end of the year	**1,447,628**

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management

58.1 Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his responsibilities.

The Bank is exposed to a number of risk including credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

58.1.1 Risk management structure

The Board of Directors supported by Board Risk Management Committee is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Risk Management Committee

The Risk Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk and overall risk control.

Asset and Liability Management Committee

Asset and Liability Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited periodically by the internal audit which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit comments the results of their assessments with management, and reports its findings and recommendations to the Audit Committee.

58 Risk management (continued)

58.1 Introduction (continued)

58.1.2 Risk measurement and reporting systems

The Bank measures risks using conventional qualitative methods for credit, market and operational risks. Further, the Bank also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Bank also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity and other risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, profit rate risk, foreign currencies, equity risks, and operational risks.

The Bank seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

58 Risk management (continued)

58.1 Introduction (continued)

58.1.3 Risk mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, profit rate risk, foreign currencies, equity risks, and operational risks.

The Bank seeks to mitigate its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is mitigated on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to mitigate liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

58.1.4 Risk concentration

Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

58.2 Credit risk

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and calibrated to the Bank's internal rating scale. The models are housed with the Moody's Risk Analyst rating tool.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate and financial guarantees;
- Charges over business assets such as premises, machinery, inventory and accounts receivable; and
- Charges over financial instruments such as financing securities and equities.

Islamic derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfill certain obligations to other parties. This exposes the Bank to a similar risk to financing and investing assets and these are mitigated by the same control processes and policies.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2011 AED'000	Gross maximum exposure 2010 AED'000 (Restated)
Balances with central banks	**11,457,902**	9,872,471
Due from banks and financial institutions	**3,043,096**	2,356,531
Islamic financing and investing assets	**55,517,325**	60,128,141
Investment in Islamic sukuk	**12,560,426**	8,200,476
Other investments	**2,034,389**	1,772,946
Receivables and other assets	**3,049,410**	2,076,134
	87,662,548	84,406,699
Contingent liabilities	**9,592,774**	11,309,713
Commitments	**9,073,076**	12,956,471
Total	**106,328,398**	108,672,883

58.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

At 31 December 2011

	Retail and business banking AED'000	**Wholesale banking AED'000**	**Total AED'000**
U.A.E.	**25,742,100**	**74,954,896**	**100,696,996**
GCC	**-**	**2,348,913**	**2,348,913**
South Asia	**1,348,936**	**904,869**	**2,253,805**
Europe	**-**	**119,629**	**119,629**
Africa	**-**	**139,223**	**139,223**
Other	**-**	**769,832**	**769,832**
Total	**27,091,036**	**79,237,362**	**106,328,398**

At 31 December 2010 - restated

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
U.A.E.	25,902,054	76,508,874	102,410,928
GCC	-	3,276,653	3,276,653
South Asia	394,739	1,768,559	2,163,298
Europe	-	436,667	436,667
Africa	-	183,662	183,662
Other	-	201,675	201,675
Total	26,296,793	82,376,090	108,672,883

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure	
	2011 AED'000	2010 AED'000 (Restated)
Financial Institutions	**32,528,389**	18,517,858
Government	**3,082,660**	11,170,038
Manufacturing and services	**13,615,585**	14,186,895
Real Estate	**26,631,306**	30,515,910
Home financing	**14,832,420**	14,519,700
Consumer financing	**10,283,752**	11,393,439
Trade	**5,354,286**	8,369,043
Total	**106,328,398**	108,672,883

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For commercial financing and investing facilities, charges over real estate properties, inventory and trade receivables,
- For retail financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for financings to their subsidiaries, but the benefits are not included in the above table.

58.2.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for investing and financing related financial position lines, based on the Bank's credit rating system.

At 31 December 2011

	Non-impaired exposures			
	Low and fair risk AED'000	Watch list AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	11,457,902	-	-	11,457,902
Due from banks and financial institutions	3,043,096	-	-	3,043,096
Islamic financing and investing assets	45,975,761	1,484,948	8,056,616	55,517,325
Investment in Islamic sukuks	12,560,426	-	-	12,560,426
Other investments	2,034,389	-	-	2,034,389
Receivables and other assets	2,959,325	27,751	62,334	3,049,410
	78,030,899	1,512,699	8,118,950	87,662,548
Contingent liabilities	9,592,774	-	-	9,592,774
Commitments	9,073,076	-	-	9,073,076
	18,665,850	-	-	18,665,850
Total	96,696,749	1,512,699	8,118,950	106,328,398

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.4 Credit quality per class of financial assets

At 31 December 2010 - restated

	Non-impaired exposures			
	Low and fair risk AED'000	Watch list AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	9,872,471	-	-	9,872,471
Due from banks and financial institutions	2,356,531	-	-	2,356,531
Islamic financing and investing assets	52,781,311	2,334,608	5,012,222	60,128,141
Investment in Islamic sukuks	8,200,476	-	-	8,200,476
Other investments	1,772,946	-	-	1,772,946
Receivables and other assets	1,970,634	39,817	65,683	2,076,134
	76,954,369	2,374,425	5,077,905	84,406,699
Contingent liabilities	11,309,713	-	-	11,309,713
Commitments	12,956,471	-	-	12,956,471
	24,266,184	-	-	24,266,184
Total	101,220,553	2,374,425	5,077,905	108,672,883

Past due Islamic financing and investing assets include those that are only past due by a few days. An analysis of past due Islamic financing and investing assets, by age, is provided. The majority of the past due investing and financing assets are not considered to be impaired.

Credit risk exposure of the Bank's financial assets for each internal risk rating

	Moody's equivalent grades	**Total 2011 AED'000**	Total 2010 AED'000 (Restated)
Low risk			
Risk rating class 1	Aaa	**13,528,493**	12,249,828
Risk rating classes 2 and 3	Aa1-A3	**17,328,607**	12,640,826
Fair risk			
Risk rating class 4	Baa1-Baa3	**8,986,784**	19,237,170
Risk rating classes 5 and 6	Ba1-B3	**40,733,720**	40,972,960
Risk rating class 7	Caa1-Caa3	**16,158,030**	16,159,586
Watch list			
Risk rating class 8		**1,484,948**	2,334,608
Impaired			
Risk rating classes 9, 10 and 11		**8,107,816**	5,077,905
		106,328,398	108,672,883

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.4 Credit quality per class of financial assets (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

58.2.5 Ageing analysis of watch list and past due exposures that are not impaired investing and financing assets per class of financial assets

	Not yet due	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
As at 31 December 2011	**214,152**	**1,145,235**	**522,669**	**354,411**	**1,270,796**	**3,507,263**
As at 31 December 2010 - restated	-	1,127,951	843,421	461,031	2,334,608	4,767,011

See note 8 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

58.2.6 Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.6 Impairment assessment (continued)

Collectively assessed allowances
Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances, letters of credit and guarantees are assessed and provision made in a similar manner as for Islamic financing and investing assets.

58.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with Central Banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

During 2007, the Bank issued a five year sukuk AED 2,822.25 million (USD 750 million) sukuk to diversify sources of funding to support business growth going forward.

During 2009, the Bank has also opted to re-categorise wakala finance from UAE Ministry of Finance to Tier 2 capital for seven years.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.1 Liquidity risk management process

The Bank's liquidity risk management process, as carried out within the Bank and monitored by a separate team in Bank's Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of investing and financing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	March	**June**	**September**	**December**
2011	**28%**	**31%**	**26%**	**21%**
2010 – restated	17%	19%	16%	18%

58.3.2 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

58.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.3 Non-derivative cash flows (continued)

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with Central banks	2,267,577	5,169,220	5,543,329	-	-	12,980,126
Due from banks and financial institutions	273,836	2,464,250	-	-	-	2,738,086
Islamic financing and investing assets	6,666,872	5,285,198	12,573,792	28,202,980	18,755,600	71,484,442
Investment in Islamic sukuk	13	1,968	12,710	12,837,538	1,599,923	14,452,152
Other investments	-	-	586,761	1,447,628	-	2,034,389
Receivables and other assets	42,416	88,028	2,900,414	62,634	5,844	3,099,336
Total assets	9,250,714	13,008,664	21,617,006	42,550,780	20,361,367	106,788,531
Customers' deposits	26,514,214	14,148,104	10,645,391	16,289,557	32,127	67,629,393
Due to banks and other financial institutions	183,309	437,772	1,773,434	2,206,762	-	4,601,277
Sukuk financing instruments	-	-	2,404,861	2,361,376	-	4,766,237
Medium term wakala finance	-	-	-	4,352,950	-	4,352,950
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	-	-	121,076	-	-	121,076
Total liabilities	28,280,679	14,759,767	15,756,361	26,179,131	38,350	85,014,288

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.3 Non-derivative cash flows (continued)

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	4,039,601	4,406,053	2,813,137	-	-	11,258,791
Due from banks and financial institutions	337,077	1,521,681	507,552	-	-	2,366,310
Islamic financing and investing assets	8,948,557	6,989,739	13,358,379	25,667,204	17,125,545	72,089,424
Investment in Islamic sukuk	14	-	247,550	7,691,630	1,701,642	9,640,836
Other investments	-	-	706,995	1,065,951	-	1,772,946
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,844	2,296,874
Total assets	13,385,761	12,998,417	19,726,849	34,481,123	18,833,031	99,425,181
Customers' deposits	21,252,483	22,396,508	8,414,400	12,001,973	1,267,146	65,332,510
Due to banks and other financial institutions	183,309	439,950	1,799,643	2,370,226	-	4,793,128
Sukuk financing instruments	-	50,797	152,391	4,785,580	-	4,988,768
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Total liabilities	22,870,257	23,153,682	12,044,356	19,605,224	6,070,401	83,743,920

Assets available to meet all of the liabilities and to cover outstanding commitments include cash, central bank balances, items in the course of collection, short term international murabahat with banks, investing and financing assets and other investments.

The Bank's Islamic derivatives will be settled on the following basis:

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic derivatives: comprise Islamic profit rate swaps.

The table below analyses the Bank's Islamic derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.4 Derivative cash flows

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	1,924,071	5,561,998	-	-	7,486,069
Islamic profit rate Swaps	-	-	6,588,590	2,088,363	623,006	9,299,959
	-	1,924,071	12,150,588	2,088,363	623,006	16,786,028

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	2,552,713	2,748,360	7,181	-	5,308,254
Islamic profit rate Swaps	-	-	-	9,324,101	671,550	9,995,651
	-	2,552,713	2,748,360	9,331,282	671,550	15,303,905

58.3.5 Off Balance Sheet items

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of Guarantee	-	4,897,105	1,857,537	754,045	2,262	7,510,949
- Letters of Credit	-	1,288,386	589,034	204,405	-	2,081,825
	-	6,185,491	2,446,571	958,450	2,262	9,592,774
Capital Commitments	-	-	167,082	149,493	-	316,575
Total	-	6,185,491	2,613,653	1,107,943	2,262	9,909,349

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.5 Off Balance Sheet items (continued)

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	5,969,424	2,670,783	133,805	35	8,774,047
- Letters of credit	-	1,442,063	1,093,603	-	-	2,535,666
	-	7,411,487	3,764,386	133,805	35	11,309,713
Capital commitments	-	87,021	44,988	256,923	-	388,932
Total	-	7,498,508	3,809,374	390,728	35	11,698,645

58.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Bank is exposed to diverse financial instruments including securities, foreign currencies, equities and commodities.

The Bank pays considerable attention to market risk. The Bank uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on a timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Bank's market risk policy in day-to-day operations. These are reviewed periodically to ensure they remain in line with the Bank's general market risk policy. The Chief Risk Officer of the Bank ensures that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Bank is required to comply with the guidelines and regulations of the Central Bank of the U.A.E.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.1 Profit margin risk

The Bank is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Bank 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 by which the depositors and investment account holders agree to share the profit or loss made by the Bank's Mudaraba asset pool over a given period.

58.4.2 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	**Increase in basis points**	**Sensitivity of profit on Islamic financing and investing assets 2011 AED'000**	Sensitivity of profit on Islamic financing and investing assets 2010 AED'000 (Restated)
AED	**50**	**48,296**	51,252
USD	**50**	**23,648**	8,651

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2011

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	12,464,366	384,235	-	3,291	-	100,427	12,952,319
Due from banks and financial institutions	2,017,030	789,822	197,843	6,697	15,863	15,841	3,043,096
Islamic financing and investing assets, net	46,144,615	4,275,037	61,878	-	12,584	1,091,974	51,586,088
Investment in Islamic sukuk	5,180,940	6,894,889	-	-	-	484,597	12,560,426
Other investments	931,468	768,337	142,503	922	101,916	89,243	2,034,389
Receivables and other assets	2,774,121	138,862	-	-	12,439	72,789	2,998,211
Total	69,512,540	13,251,182	402,224	10,910	142,802	1,854,871	85,174,529
Financial Liabilities:							
Customers' deposits	58,165,539	4,930,075	22,987	32,162	161,086	1,459,468	64,771,317
Due to banks and other financial institutions	3,741,153	229,220	-	678	2,443	78,939	4,052,433
Sukuk financing instruments	1,100,000	3,073,983	-	-	-	-	4,173,983
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,977,249	358,433	167,594	594	2,375	37,110	3,543,355
Total	69,736,484	8,591,711	190,581	33,434	165,904	1,575,517	80,293,631
Net on balance sheet	(223,944)	4,659,471	211,643	(22,524)	(23,102)	279,354	4,880,898
Unilateral promise to buy/sell currencies	5,906,329	(5,727,195)	(147,315)	10,887	(42,305)	(401)	-
Currency position - long/(short)	5,682,385	(1,067,724)	64,328	(11,637)	(65,407)	278,953	4,880,898

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk (continued)

At 31 December 2010 - restated

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	9,408,777	331,038	-	-	-	132,656	9,872,471
Due from banks and financial institutions	1,057,498	720,804	215,173	197,213	85,627	80,216	2,356,531
Islamic financing and investing assets, net	51,743,422	4,393,839	17	-	17,176	1,016,613	57,171,067
Investment in Islamic sukuk	5,606,484	2,338,999	-	-	-	254,993	8,200,476
Other investments	273,700	1,075,729	181,453	8,300	159,008	74,756	1,772,946
Receivables and other assets	1,257,541	438,359	34,566	155	35,295	255,667	2,021,583
Total	69,347,422	9,298,768	431,209	205,668	297,106	1,814,901	81,395,074
Financial Liabilities:							
Customers' deposits	58,677,298	3,058,930	10,164	33,125	308,971	1,358,582	63,447,070
Due to banks and other financial institutions	3,388,460	802,553	23	171,776	5,870	40,745	4,409,427
Sukuk financing instruments	2,168,941	2,007,074	-	-	-	-	4,176,015
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,043,159	1,105,814	279,933	1,000	28,789	221,228	3,679,923
Total	70,030,401	6,974,371	290,120	205,901	343,630	1,620,555	79,464,978
Net on balance sheet	(682,979)	2,324,397	141,089	(233)	(46,524)	194,346	1,930,096
Unilateral promise to buy/sell currencies	4,285,814	(4,258,683)	(44,184)	440	17,771	(1,158)	-
Cumulative currency position – long/(short)	3,602,835	(1,934,286)	96,905	207	(28,753)	193,188	1,930,096

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant, including the effect of hedging instruments, on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in %**	**Effect on profit before tax 2011 AED'000**	Effect on profit before tax 2010 AED'000 (Restated)
USD	**+2**	**21,354**	38,686
GBP	**+2**	**233**	(4)
EURO	**+2**	**1,308**	575

Currency	**Decrease in currency rate in %**	**Effect on profit before tax 2011 AED'000**	Effect on profit before tax 2010 AED '000 (Restated)
USD	**-2**	**(21,354)**	(38,686)
GBP	**-2**	**(233)**	4
EURO	**-2**	**(1,308)**	(575)

58.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.4 Foreign investment (continued)

Currency	**Increase in currency rate in %**	**Effect on profit before tax 2011 AED'000**	**Effect on equity 2011 AED'000**	Effect on profit before tax 2010 AED'000 (Restated)	Effect on equity 2010 AED'000 (Restated)
Pak Rupees	+5	**1,346**	**15,683**	-	13,629
Egypt Sterling	+5	**705**	**10,803**	1,878	9,454

Currency	**Decrease in currency rate in %**	**Effect on profit before tax 2011 AED'000**	**Effect on Equity 2011 AED'000**	Effect on profit before tax 2010 AED'000 (Restated)	Effect on Equity 2010 AED'000 (Restated)
Pak Rupees	**-5**	**(151)**	**(10,476)**	(1)	(12,335)
Egypt Sterling	**-5**	**(638)**	**(7,191)**	606	(8,582)

58.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through OCI at 31 December 2011 and as available-for-sale at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	**% Change in Market indices**	**Effect on consolidated income statement 2011 AED'000**	**Effect on equity 2011 AED'000**	Effect on consolidated income statement 2010 AED'000 (Restated)	Effect on equity 2010 AED'000 (Restated)
Dubai Financial Market	**±5%**	**317**	**13,594**	-	13,934
Abu Dhabi Exchange	**±5%**	**-**	**2,950**	-	3,035
Bahrain Stock Exchange	**±5%**	**-**	**2,547**	894	-
Saudi Stock Exchange	**±5%**	**-**	**3,805**	-	3,192
Doha Stock Exchange	**±5%**	**-**	**1,736**	-	1,293
Others	**±5%**	**-**	**1,965**	1,005	1,530

58 Risk management (continued)

58.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Bank has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Bank that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Bank is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the bank. The system houses three years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA and scenario based fraud risk self assessment modules.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

58.6 Capital management

58.6.1 Regulatory capital

The Bank's lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.6 Capital management (continued)

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly / quarterly basis.

The U.A.E. Central Bank vide its circular No. 27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Further, from June 2010, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.6 Capital management (continued)

58.6.1 Regulatory capital (continued)

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2011 AED'000	2010 AED'000 (Restated)
Tier 1 Capital		
Share capital	**3,797,054**	3,797,054
Statutory reserves	**2,731,879**	2,731,879
Donated land reserve	**267,085**	276,139
General reserves	**2,350,000**	2,350,000
Retained earnings	**563,777**	368,723
Non-controlling interest	**971,427**	942,434
	10,681,222	10,466,229
Less:		
Goodwill and intangibles	**-**	(17,258)
Cumulative deferred exchange losses	**(105,560)**	(79,279)
	10,575,662	10,369,692
Tier 2 Capital		
Hedging reserves	**-**	4,795
Investment fair value reserve	**(831,849)**	(243,166)
Collective impairment	**842,735**	764,689
Medium term wakala finance	**3,752,543**	3,752,543
Deductions for associates	**(602,255)**	(596,950)
	3,161,174	3,681,911
Total capital base	**13,736,836**	14,051,603
Risk weighted assets		
Credit risk	**70,353,269**	73,395,388
Market risk	**1,174,630**	1,986,235
Operational risk	**3,745,404**	3,772,256
Total risk weighted assets	**75,273,303**	79,153,879
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**18.2%**	17.8%
Tier 1 capital to total risk weighted assets after deductions for associates	**13.6%**	12.7%

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

59 Prior year adjustment

The consolidated financial statements as at and for the year ended 31 December 2010 have been restated as a result of an adjustment in share of loss of an associate for the year ended 2010 in Deyaar P.J.S.C. The associate accounted for an impairment charge for goodwill in its financial statements for the year ended 31 December 2011, that is reflected as prior year adjustment, which resulted in a restatement for the year ended 31 December 2010. As a result, the Bank has also restated its share of loss from associates in prior year as follows:

	As previously reported AED'000	Restatement AED'000	As restated AED'000
<u>Consolidated financial position</u>			
Investment in associates as at 31 December 2010	**3,430,274**	**(253,370)**	**3,176,904**
<u>Consolidated income statement</u>			
Share of loss from associates for the year ended 31 December 2010	**(846,521)**	**(253,370)**	**(1,099,891)**
<u>Consolidated statement of changes in equity</u>			
Retained earnings as at 31 December 2010	**748,428**	**(253,370)**	**495,058**

At 31 December 2010, basic and diluted earnings per share attributable to the equity holders of the parent decreased from AED 0.21 per share to AED 0.15 per share.

The restatement does not have an impact on the opening reserves of 2010 or on 2009 consolidated financial statements. The consolidated financial position at 1 January 2010 is, therefore, not included in these consolidated financial statements.

60 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 1 February 2012.

ISSUER, TRUSTEE AND RAB-AL-MAAL

DIB Tier 1 Sukuk Ltd.
c/o MaplesFS Limited
P.O. Box 1093, Queensgate House
Grand Cayman, KY1-1102
Cayman Islands

MUDAREB

Dubai Islamic Bank PJSC
P.O. Box 111555
Dubai
United Arab Emirates

DELEGATE

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

PRINCIPAL PAYING AGENT AND CALCULATION AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

REGISTRAR AND TRANSFER AGENT

Deutsche Bank Luxembourg S.A.
2 Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

JOINT LEAD MANAGERS AND BOOKRUNNERS

Dubai Islamic Bank PJSC
P.O. Box 111555
Dubai
United Arab Emirates

Emirates NBD Capital Limited
402 Gate – East Wing
Dubai International Financial Centre
P.O. Box 506710
Dubai
United Arab Emirates

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

National Bank of Abu Dhabi P.J.S.C.
One NBAD Tower, 23rd Floor
Sheikh Khalifa Street
Abu Dhabi
P.O. Box 4
United Arab Emirates

Standard Chartered Bank
P.O. Box 999
Dubai
United Arab Emirates

CO-LEAD MANAGERS

Abu Dhabi Islamic Bank PJSC
P.O. Box 313
Abu Dhabi
United Arab Emirates

Barwa Bank Q.S.C.
Grand Hamad Street
P.O. Box 27778
Doha
Qatar

Sharjah Islamic Bank PJSC
P.O. Box 4
Sharjah
United Arab Emirates

AUDITORS TO DIB

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

SHARI'A ADVISERS TO DIB

Dar Al Sharia Legal & Financial Consultancy LLC
P.O. Box 12988
Dubai
United Arab Emirates

LEGAL ADVISERS

To the Issuer
as to Cayman Islands law

Maples and Calder
The Exchange Building, 5th Floor
Dubai International Financial Centre
P.O. Box 119980
Dubai
United Arab Emirates

To DIB
as to English law, DIFC law and UAE law

Allen & Overy LLP
Level 2
Gate Village Building GV08
Dubai International Financial Centre
P.O. Box 506678
Dubai
United Arab Emirates

To the Managers
as to English law, DIFC law and UAE law

Linklaters LLP
Ninth Floor, Currency House
Dubai International Financial Centre
P.O. Box 506516
Dubai
United Arab Emirates

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Delegate
as to English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

بنك دبي الإسلامي
Dubai Islamic Bank