IMPORTANT NOTICE

THIS PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the "document") and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached document. In accessing the attached document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and intended only for you and you agree you will not reproduce or publish this electronic transmission or forward the attached document to any other person.

RESTRICTIONS: UNDER NO CIRCUMSTANCES SHALL THE ATTACHED DOCUMENT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS.

THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE MANAGERS (AS DEFINED BELOW) AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

THE ATTACHED DOCUMENT IS NOT BEING DISTRIBUTED TO, AND MUST NOT BE PASSED ON TO, THE GENERAL PUBLIC IN THE UNITED KINGDOM. RATHER, THE COMMUNICATION OF THE ATTACHED DOCUMENT (A) IF EFFECTED BY A PERSON WHO IS NOT AN AUTHORISED PERSON UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 ("**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) 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 CIS ORDER**"), (II) PERSONS FALLING WITHIN ANY OF THE CATEGORIES OF PERSON DESCRIBED IN ARTICLE 22(a)-(d) OF THE PROMOTION OF CIS ORDER AND (III) ANY OTHER PERSON TO WHOM IT MAY OTHERWISE BE LAWFULLY BE MADE IN ACCORDANCE WITH THE PROMOTION OF CIS ORDER. THIS COMMUNICATION IS BEING DIRECTED ONLY AT PERSONS HAVING PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS AND ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS COMMUNICATION RELATES WILL BE ENGAGED IN ONLY WITH SUCH PERSONS. NO OTHER PERSON SHOULD RELY ON IT.

Confirmation of your representation: The attached document is delivered to you at your request and on the basis that you have confirmed to Al Hilal Bank P.J.S.C., Dubai Islamic Bank P.J.S.C., Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C., Noor Bank P.J.S.C., Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank (together, the "**Joint Lead Managers**"), Dubai Islamic Bank P.J.S.C. ("**DIB**") and DIB Tier 1 Sukuk (2) Ltd. (the "**Trustee**") that (i) you are located outside the United States and not a U.S. person, or acting for the account or benefit of any U.S. person; (ii) you consent to delivery by electronic transmission; (iii) you will not transmit the attached document (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the prior written consent of the Joint Lead Managers; and (iv) you acknowledge that you will make your own assessment regarding any credit, investment, legal, taxation or other economic considerations with respect to your decision to subscribe or purchase any of the Certificates.

The attached document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of DIB, the Trustee, the Joint Lead Managers nor any person who controls or is a director, officer, employee or agent of DIB, the Trustee, the Joint Lead Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the attached document distributed to you in electronic format and the hard copy version. By accessing the attached document, you consent to receiving it in electronic form. A hard copy of the attached document will be made available to you only upon request to the Joint Lead Managers.

You are reminded that the attached document has been delivered to you on the basis that you are a person into whose possession the attached document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver the attached document, electronically or otherwise, to any other person. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Neither the Joint Lead Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of the attached document or for any statement made or purported to be made by any of them, or on any of their behalf, in connection with DIB, the Trustee or the offer. The Joint Lead Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Joint Lead Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in the attached document.

The Joint Lead Managers are acting exclusively for DIB and the Trustee and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of the attached document) as their client in relation to the offer and will not be responsible to anyone other than DIB and the Trustee for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of DIB and the Trustee in such jurisdiction.

Under no circumstances shall the attached document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase any securities to be issued are reminded that any subscription or purchase may only be made on the basis of the information contained in the final version of the attached document.

If you received the attached document by e-mail, you should not reply by e-mail to this communication. Any reply e-mail communications, including those you generate by using the “Reply” function on the e-mail software, will be ignored or rejected. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Restrictions on marketing and sales to retail investors

The Certificates are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Certificates to retail investors.

By purchasing, or making or accepting an offer to purchase, any Certificates from DIB and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Issuer, DIB and each of the Joint Lead Managers that:

(a) it will not sell or offer the Certificates to retail clients in the European Economic Area (the “**EEA**”) (as defined in article(4)(1)(12) of the Markets in Financial Instruments Directive (2004/39/EC) (“**MiFID**”)) or do anything (including the distribution of the attached document relating to the Certificates) that would or might result in the buying of the Certificates or the holding of a beneficial interest in the Certificates by a retail client in the EEA, other than in relation to any sale or offer to sell Certificates to a retail client in any EEA member state, where (i) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Certificates and is able to bear the potential losses involved in an investment in the Certificates and (ii) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(b) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Certificates, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Certificates by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Certificates from DIB and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

بنك دبي الإسلامي
Dubai Islamic Bank

DIB TIER 1 SUKUK (2) 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 (2) Ltd. (in its capacity as issuer and in its capacity as trustee, as applicable, the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated 20 January 2015 (the "**Issue Date**") entered into between the Trustee, Dubai Islamic Bank P.J.S.C. ("**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) and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the "**Conditions**").

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in whole and the Certificates shall be cancelled. See "*Risk Factors – Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*".

The payment obligations of DIB under the Mudaraba Agreement (as defined herein) (including all payments which are the equivalent of principal and profit) (the "**Relevant Obligations**") will, subject to the Solvency Conditions (as defined herein) being satisfied at the relevant time and no bankruptcy order having been issued in respect of DIB by a court in the United Arab Emirates (the "**UAE**"), rank in priority only to all Junior Obligations (as defined in the Conditions). Payments in respect of the Relevant Obligations by DIB are conditional upon (i) DIB being Solvent (as defined herein) at all times from (and including) the first day of the relevant Periodic Distribution Period (as defined herein) (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations; (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 (each, as defined in the Conditions) and still be Solvent immediately thereafter; and (iii) the total share capital (including, without limitation, retained earnings) of DIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Certificates (together, the "**Solvency Conditions**"). ***In addition, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of DIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by DIB in respect of the Relevant Obligations.***

Periodic Distribution Amounts (as defined herein) shall be payable subject to and in accordance with the Conditions on the outstanding face amount of the Certificates from (and including) the Issue Date to (but excluding) 20 January 2021 (the "**First Call Date**") at a rate of 6.750 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 5.126 per cent. per annum. Periodic Distribution Amounts will, if payable pursuant to the Conditions, be payable semi-annually in arrear on 20 January and 20 July in each year, commencing 20 July 2015. Payments on the Certificates will be made free and clear of and 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 13 (*Taxation*). Each payment of a Periodic Distribution Amount will be made by the Trustee provided that DIB (in its capacity as Mudareb (as defined herein)) 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 are otherwise at the sole discretion of DIB (as Mudareb). 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 all but not some only of 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 10.1(d) (*Redemption or Variation for Capital Event*). Any redemption or variation is subject to the conditions described in Condition 10.1 (*Redemption and variation*).

Upon the occurrence of a DIB Event (as defined in the Conditions), the Delegate shall (subject to Condition 12.1 (*DIB Events*)) give notice of the occurrence of such event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to the Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed and the Trust to be dissolved (a "**Dissolution Request**"). The Delegate may and, 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, shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), give notice (a "**Dissolution Notice**") to the Trustee that the Certificates are immediately due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments (as defined in the Conditions), whereupon 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 Dissolution Notice, the Trustee and/or the Delegate shall subject to Condition 12.3 (*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 (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (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. Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of Markets in Financial Instruments Directive (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. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Certificates to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). The Main Securities Market is a MiFID Regulated Market. This Prospectus has been approved by the Dubai Financial Services Authority (the "**DFSA**") under the DFSA's Markets Rule 2.6 and is therefore an approved prospectus for the purposes of Article 14 of the DFSA's Markets Law 2012. Application has also been made to the DFSA for the Certificates to be admitted to the official list of securities maintained by the DFSA (the "**DFSA Official List**") and to NASDAQ Dubai for such Certificates to be admitted to trading on NASDAQ Dubai.

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

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 SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive Certificates evidencing holdings of interests in the Certificates will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

This Prospectus relates to an Exempt Offer in accordance with the Markets Rules (the "Markets Rules") of the DFSA. This Prospectus is intended for distribution only to persons of a type specified in the Markets Rules. It must not be delivered to, or relied on by, any other person. The DFSA does not accept any responsibility for the content of the information included in this Prospectus, including the accuracy or completeness of such information, nor has it determined whether the Certificates are *Shari'a*-compliant. The liability for the content of this Prospectus lies with the Trustee and DIB. The DFSA has also not assessed the suitability of the Certificates to which this Prospectus relates to any particular investor or type of investor. If you do not understand the contents of this Prospectus or are unsure whether the Certificates to which this Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on pages 7 to 8 of this Prospectus for information regarding certain restrictions on marketing and sales to retail investors.

The transaction structure relating to the Certificates (as described in this Prospectus) has been approved by the Fatwa and Sharia Supervisory Board of DIB and the Sharia Committee of Dar al Sharia Legal & Financial Consultancy LLC, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the Shariah Supervisory Committee of Standard Chartered Bank and the Fatwa and *Shari'a* Supervisory Board of Noor Bank P.J.S.C. 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.

The Certificates may only be offered, sold or transferred in registered form in minimum face amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Structuring Banks and Joint Lead Managers

HSBC **Standard Chartered Bank**

Joint Lead Managers

Al Hilal Bank P.J.S.C. **Dubai Islamic Bank P.J.S.C.** **Emirates NBD Capital**

National Bank of Abu Dhabi **Noor Bank P.J.S.C.** **Sharjah Islamic Bank P.J.S.C.**

The date of this Prospectus is 19 January 2015

This Prospectus complies with the requirements in Part 2 of the Markets Law (DIFC Law No.1 of 2012) and Chapter 2 of the Markets Rules and comprises a prospectus for the purposes of Article 5.3 of the Prospectus Directive, in each case, for the purpose of giving information with regard to the Trustee, DIB and its subsidiaries and affiliates taken as a whole and the Certificates which, according to the particular nature of 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 Trustee and DIB and of the Certificates. The Trustee and DIB accept responsibility for the information contained in this Prospectus. To the best of the knowledge of each of 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. The opinions, assumptions, intentions, projections and forecasts expressed in this Prospectus with regard to the Trustee and DIB are honestly held by the Trustee and DIB, have been reached after considering all relevant circumstances and are based on reasonable assumptions and are not misleading in any material respect.

Certain information under the headings "*Risk Factors*", "*Description of Dubai Islamic Bank P.J.S.C.*", "*Overview of the United Arab Emirates*" and "*The United Arab Emirates Banking Sector and Regulations*" has been extracted from information provided by: (i) the UAE Central Bank (the "**Central Bank**") and Colliers International, in the case of "*Risk Factors*"; (ii) the UAE and Emirate of Dubai ("**Dubai**") governments, and the Central Bank, in the case of "*Description of Dubai Islamic Bank P.J.S.C.*"; (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 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 Joint Lead 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 Trustee or DIB in connection with the Certificates.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Prospectus or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Trustee, DIB or the issue and offering of the Certificates. Each Joint Lead 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 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 Trustee, DIB, the Delegate or any of the Joint Lead Managers. None of the Joint Lead 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 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 Trustee, the Delegate, DIB or the Joint Lead 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 and the Sharia Committee of Dar al Sharia Legal & Financial Consultancy LLC, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the Shariah Supervisory Committee of Standard Chartered Bank and the Fatwa and *Shari'a* Supervisory Board of Noor Bank P.J.S.C. 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. None of the Joint Lead Managers, the Trustee, the Delegate or DIB makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable 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 distribution of this Prospectus and the offering, sale and delivery of the Certificates in certain jurisdictions may be restricted by law. None of the Trustee, DIB, the Joint Lead 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 Trustee, DIB, the Joint Lead 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 Trustee, DIB and the Joint Lead 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 UAE (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 Trustee, DIB, the Delegate, the Paying Agents, the Joint Lead 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 Trustee and DIB. None of the Joint Lead 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 Trustee or DIB in connection with the Certificates.

Neither this Prospectus nor any other information supplied in connection with the issue of the Certificates (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Trustee, the Delegate, DIB or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the issue of the Certificates should purchase any Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and DIB. None of the Joint Lead Managers undertakes to review the financial condition or affairs of the Trustee or DIB during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of any of the Joint Lead Managers.

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 Trustee, DIB, the Delegate, the Joint Lead 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 P.J.S.C.*" 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 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 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 Trustee and DIB cannot assure potential investors that projected results or events will be achieved and 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 unaudited condensed consolidated interim financial information as at and for the nine month period ended 30 September 2014 (the "**September 2014 Unaudited Financial Information**") and the audited consolidated financial statements as at and for the financial years ended 31 December 2012 (together with the audit report thereon the "**2012 Financial Statements**") and 31 December 2013 (together with the audit report thereon the "**2013 Financial Statements**" and, together with the 2012 Financial Statements, the "**Audited Financial Statements**"). The September 2014 Unaudited Financial Information and the Audited Financial Statements are, together, referred to as the "**Financial Statements**".

The Audited 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 Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**").

The September 2014 Unaudited Financial Information has been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" ("**IAS 34**"). The September 2014 Unaudited Financial Information has been reviewed by KPMG Lower Gulf Limited in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" ("**ISRE 2410**"), independent auditors, as stated in their review report appearing herein. All information in this Prospectus as at, or for the nine month periods ended, 30 September 2013 and 30 September 2014 is unaudited.

DIB publishes its financial statements in UAE Dirham.

DIB restated its consolidated financial statements as at and for the year ended 31 December 2011. 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 2013 Financial Statements or DIB's management accounts and not from DIB's audited consolidated financial statements as at and for the year ended 31 December 2011 (i) as originally published or (ii) as published in the 2012 Financial Statements.

DIB restated its consolidated financial statements as at and for the year ended 31 December 2012. All financial information relating to DIB as at and for the year ended 31 December 2012 set out in this Prospectus has been extracted from the restated 2012 financial information contained in the 2013 Financial Statements and not from DIB's 2012 Financial Statements as originally published.

Certain Publicly Available Information

Certain statistical data and other information appearing in this Prospectus have been extracted from public sources identified in this Prospectus. None of the Joint Lead Managers, 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 UAE. 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.

Restrictions on marketing and sales to retail investors

The Certificates are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Certificates to retail investors.

By purchasing, or making or accepting an offer to purchase, any Certificates from DIB and/or the Joint Lead Managers, each prospective investor represents, warrants, agrees with and undertakes to the Issuer, DIB and each of the Joint Lead Managers that:

(a) it will not sell or offer the Certificates to retail clients in the European Economic Area (the "**EEA**") (as defined in article 4(1)(12) of the Markets in Financial Instruments Directive (2004/39/EC) ("**MiFID**")) or do anything (including the distribution of this Prospectus) that would or might result in the buying of the Certificates or the holding of a beneficial interest in the Certificates by a retail client in the EEA, other than in relation to any sale or offer to sell Certificates to a retail client in any EEA member state, where (i) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Certificates and is able to bear the potential losses involved in an investment in the

Certificates and (ii) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(b) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Certificates, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Certificates by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Certificates from DIB and/or the Joint Lead Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

NOTICE TO UK 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 Conduct 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 (iii) any other person to whom it may otherwise lawfully be made in accordance with 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 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 and this Prospectus shall not be construed as an invitation 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 (the "**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, the Qatar Financial Centre Regulatory Authority, the Qatar Exchange or the Qatar Central Bank. The Certificates have not been, and will not be, offered, sold or delivered at any time, directly or indirectly, in the State of Qatar, including the Qatar Financial Centre, in a manner that would constitute a public offering. 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.

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of 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 Trustee and DIB believes that the following factors may affect the Trustee's ability to fulfil its obligations under the Certificates. All of these factors are contingencies which may or may not occur and neither the Trustee nor DIB is in a position to express a view on the likelihood of any such contingency occurring. Factors which the Trustee and DIB believe may be material for the purpose of assessing the market risks associated with the Certificates are also described below.

Each of the Trustee 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 Trustee 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 Trustee or DIB or which the Trustee 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 Trustee

The Trustee is an exempted company with limited liability incorporated in the Cayman Islands on 11 November 2014 and has no operating history. The Trustee 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. As the Trustee is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process on it outside the Cayman Islands.

The Trustee'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. Therefore, the Trustee is subject to all the risks to which DIB is subject to the extent that such risks could limit DIB's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will be dependent upon receipt by the Trustee from DIB of amounts to be 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

As at 31 December 2013, approximately 93 per cent. of DIB's operations and assets were 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.

The UAE and Middle East 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. Generally, investment is only suitable for sophisticated investors who fully appreciate the significance of the risks 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. As at 31 December 2013, approximately 93 per cent. of DIB's operations and assets were located in the UAE, with a particular focus on Dubai. In the period between 2008 and 2012, there was a slowdown or reversal of the high rates of growth that had been experienced by many countries within the Gulf Co-operation Council ("**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, were materially adversely affected during that period. Given that DIB has the majority of its operations in the UAE, its operations have previously been and may continue to be affected by 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 they are located in the MENA region, there is a risk that regional geopolitical instability could impact them. 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 had been significantly adversely affected (see further "– *Real estate exposure*"). DIB could be adversely affected 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 GCC region, DIB suffered a deterioration in its financing portfolio (in DIB's case between 2008 and 2012), 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*"). As at 31 December 2013, approximately 93 per cent. of DIB's operations were 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 and 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 subdivided 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, financial condition, results of operations 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 system, 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 P.J.S.C. – 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, financial condition, results of operations 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, financial condition, results of operations 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, financial condition, results of operations and 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 areas 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, financial condition, results of operations 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 Central Bank, there were, as at 30 June 2014, 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 30 September 2014, 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, financial condition, results of operations 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, reputation, financial condition, results of operations 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.

Subsequently, 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 by DIB in late 2012). Due to the plaintiffs' request for additional documents and certain co-defendants seeking extensions, the document discovery phase was extended and is expected to conclude by the end of the first quarter of 2015. This may, however, be further extended at the court's discretion. The next step is for the parties to identify and take testimony of relevant witnesses in depositions under oath. 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 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 27.9 per cent. of DIB's share capital as at 30 September 2014. 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 and investments in bilateral *sukuk* after netting of impairment provisions, have grown from AED 54.8 billion (U.S.$14.9 billion) as at 31 December 2011 to AED 74.4 billion (U.S.$20.3 billion) as at 30 September 2014.

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, financial condition, results of operations 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 55.4 per cent. of its consolidated total assets, or AED 71.1 billion (U.S.$19.4 billion), as at 30 September 2014. Of such total portfolio, as at 30 September 2014, nearly 93.8 per cent. of DIB's Islamic financing and investing assets were situated in the UAE.

DIB's customers' deposits constituted 85.9 per cent. of its total liabilities, or AED 95.5 billion (U.S.$26.0 billion), as at 30 September 2014, 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, financial condition, results of operations 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 30 September 2014, the Group's gross financing exposure (that is to say, before taking into account collateral held or other credit enhancements) to the real estate and home financing sectors was 24.0 per cent. and 15.8 per cent., respectively. As at 31 December 2013, 26.3 per cent. and 19.3 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.

DIB is exposed to the consumer home finance sector both directly and through its subsidiary, Tamweel P.J.S.C. ("**Tamweel**"), whose core business is the provision of *Shari'a*-compliant home financing solutions within the UAE. Tamweel's Islamic financing and investing assets are 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 30 September 2014, DIB owned 86.5 per cent. of Tamweel's issued share capital.

Following the financial crisis in 2008, the Dubai real estate market has witnessed a recovery with the overall quarterly Dubai House Price Index increasing to 170 points in the second quarter of 2014 from 141 points in the second quarter of 2013, an increase of 20 per cent., according to Colliers International. Market regulations have also been strengthened in an attempt to mitigate the risk of a repeat of Dubai's real estate market crisis. The Group continues to have a portion of its financing assets within the real estate sector and any significant fluctuations in this sector may have a material adverse effect on DIB's business, financial condition, results of operations and prospects. A 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 and systems DIB has 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. Both Fitch and Moody's have affirmed DIB's ratings at the current levels with a "Stable" outlook. However, investors should be aware that any negative movement is likely to make it more expensive for DIB to raise financing in the future which could have an adverse effect on its business, financial condition, results of operations and prospects and could adversely affect the price at which the Certificates are traded in the secondary market.

No guarantee

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 Trustee 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

Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event

If a Non-Viability Event (as defined below) occurs at any time on or after the Effective Date (as defined in the Conditions), the Certificates will be cancelled and all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a DIB Event) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto. As a result, Certificateholders will lose the entire amount of their investment in the Certificates.

A "**Non-Viability Event**" means that the Financial Regulator (as defined in the Conditions) has notified DIB in writing that it has determined that DIB is, or will become, Non-Viable (as defined in the Conditions) without: (a) a Write-down; or (b) a public sector injection of capital (or equivalent support).

Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon any of the Solvency Conditions not being satisfied at any time or a bankruptcy order in respect of DIB being issued

If any of the Solvency Conditions (as defined herein) is not satisfied on any date on which any payment obligation under the Mudaraba Agreement is due or a bankruptcy order in respect of DIB has been issued by a court in the UAE, all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a DIB Event) shall be extinguished and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to such date. As a result, Certificateholders will lose the entire amount of their investment in the Certificates.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of DIB's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator. As a result, the Financial Regulator may require a Write-down in circumstances that are beyond the control of DIB and with which DIB may not agree.

The payment obligations of DIB under the Mudaraba Agreement 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, as more particularly described in Condition 4.2 (*Subordination*). 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 (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations;

(ii) DIB (in its capacity as Mudareb or otherwise) 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; and

(iii) the total share capital (including, without limitation, retained earnings) of DIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Certificates,

(together, the "**Solvency Conditions**").

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.

The Trustee may exercise its enforcement rights in relation to the Mudaraba Agreement only in the manner provided in Condition 12.3 (*Winding-up, dissolution or liquidation*). If a DIB Event occurs and DIB has failed to satisfy any of the Solvency Conditions or if a bankruptcy order in respect of DIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by DIB in respect of the Relevant Obligations.

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 in the Conditions or in the terms of the Transaction Documents on DIB (in its capacity as Mudareb or otherwise) incurring additional financing or 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 payment obligations of DIB under the Mudaraba Agreement are subordinated and unsecured obligations*".

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

DIB may elect, in its sole discretion and by instructing the Trustee to such effect, not to make payment of a Periodic Distribution Amount to Certificateholders on the corresponding Periodic Distribution Date, except that no such election may be made in respect of the Periodic Distribution Amount payable on the Dissolution Date.

In addition, if a Non-Payment Event (as defined in the Conditions) occurs, DIB (in its capacity as Mudareb) shall be prohibited from paying Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit on any Mudaraba Profit Distribution Date or Mudaraba End Date (as the case may be) pursuant to the Mudaraba Agreement, and as a result thereof the Trustee shall be prohibited from paying Periodic Distribution Amounts to the Certificateholders on the corresponding Periodic Distribution Date, as more particularly provided in, Condition 8.1 (*Non-Payment Event*).

If any amount of Rab-al-Maal Mudaraba Profit, Rab-al-Maal Final Mudaraba Profit or Periodic Distribution Amount is not paid as a consequence of DIB's election or a Non-Payment Event then, from the date of such election or Non-Payment Event, DIB will be prohibited from declaring or paying certain distributions or dividends and from redeeming, purchasing, cancelling, reducing or otherwise acquiring certain securities, in each case for a limited period of time, as more particularly described in 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 an election by DIB 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) and the Trustee will not have any obligation to make any subsequent payment in respect of any such Periodic Distribution Amounts.

If such a situation occurs, the Certificateholders shall 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.

The Certificates are Perpetual Securities

The Certificates are perpetual securities which have no scheduled payment date. The Trustee is under no obligation to redeem the Certificates at any time and the Certificateholders have no right to call for their redemption unless a DIB Event occurs. The DIB Events and Certificateholders' rights following a DIB Event are set out in Condition 12 (*Dissolution Events and Winding-up*). The Trustee is required to redeem the Certificates (upon the instructions of DIB (acting in its sole discretion)) in certain circumstances, including on the First Call Date or any Periodic Distribution Date thereafter and if a Tax Event of a Capital Event occurs, as more particularly described in Condition 10 (*Redemption and Variation*), although there is no assurance that DIB will require it to do so.

Therefore, prospective investors should be aware that they may be required to bear the financial risks of an investment in the Certificates indefinitely, unless:

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

(ii) the Trustee is directed by an Extraordinary Resolution of the Certificateholders following a DIB Event to redeem the Certificates; or

(iii) they sell their Certificates.

If the Certificates are redeemed, there can be no assurance that Certificateholders will be able to reinvest the amount received upon redemption in a comparable security at a rate that will provide the same rate of return as their investment in the Certificates. Potential investors should consider reinvestment risk in light of other investments available at that time.

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*).

Minimum regulatory capital and liquidity requirements

DIB is subject to the risk, inherent in all regulated financial businesses, of having insufficient capital resources to meet the minimum regulatory capital requirements applicable to it. A shortage of available capital might also restrict DIB's opportunities for expansion. Under Basel III (as defined in the Conditions), capital requirements are inherently more sensitive to market movements than under previous regimes and capital requirements will increase if economic conditions or negative trends in the financial markets worsen. On 16 December 2010, the Basel Committee issued its final guidance on Basel III in ''Basel III: A global regulatory framework for more resilient banks and banking systems''. A revised version was subsequently published in June 2011.

The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments) of risk weighted assets. The total Tier 1 capital requirement will increase from 4 per cent. to 6 per cent. of risk weighted assets. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity (or equivalent) requirements to 7.0 per cent. of risk weighted assets. If there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0 per cent. to 2.5 per cent. of common equity (or other fully loss absorbing capital) is to be applied as an extension of the conservation buffer. Furthermore, systemically important banks are required to have loss-absorbing capacity beyond these standards (see "*Basel III Reforms – Future UAE legislation on loss absorbency at the point of non-viability may have adverse effects for Certificateholders*" and "*Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*").

The Basel III reforms also require tier 1 and tier 2 capital instruments to be more loss-absorbing. The Basel III capital requirements have been implemented from 1 January 2013 by Basel Committee members globally and are subject to a series of transitional arrangements, which will be phased in over a period of time, and are expected to be fully effective by 2019. They are also supplemented by a leverage ratio, a liquidity coverage ratio and a net stable funding ratio.

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. Basel III may be implemented in the UAE in a manner that is different from that which is currently envisaged, or regulations may be introduced in the UAE which impose additional capital requirements on, or otherwise affect the capital adequacy requirements relating to, UAE banks. If the regulatory capital requirements, liquidity restrictions or ratios applied to DIB are increased in the future, any failure by DIB to maintain such increased regulatory capital ratios could result in administrative actions or sanctions, which may have an adverse effect on DIB's business, financial condition, results of operations and prospects.

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

On 13 January 2011, the Basel Committee expanded on the Basel III capital rules with additional non-viability requirements (the "**January 13 Annex**"). The January 13 Annex requires non-common equity tier 1 or tier 2 instruments issued by an internationally active bank to have a provision in their terms and conditions, or to be subject to a statutory legal framework, that requires such instruments, at the option of the relevant authority, to either be written off or converted to common equity upon the occurrence a "trigger event" (being the earlier of: (1) a decision that a write-off, without which the bank would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the bank would have become non-viable, as determined by the relevant authority).

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 any such trigger event. If the regulatory requirements for capital instruments applicable to DIB are modified in the future it is possible that authorities could use their powers in such a way as to result in the Certificates absorbing losses in the manner described in the paragraph above. Accordingly, the operation of any such future legislation may have an adverse effect on the positions of Certificateholders.

The Conditions currently cater for principal loss absorption, as set out in Condition 11 (*Write-down at the Point of Non-Viability*), by providing for the full and permanent write-down of the Certificates if a trigger event occurs on or after the Effective Date (as defined below) – see "*Certificateholders' right to receive payment of the principal amount of the Certificates and the Certificateholders' right for any further profit will be fully and permanently written-down upon the occurrence of a Non-Viability Event*". However, Basel III may be implemented in the UAE in a manner that is different from that which is currently envisaged (see "*Minimum regulatory capital and liquidity requirements*"). If in the future a law is implemented in the UAE requiring loss absorbency for bank capital instruments as described above, there can be no assurances that Condition 11 (*Write-down at the Point of Non-Viability*) would satisfy the requirements of any such law for the purposes of the UAE Central Bank and, accordingly, the implementation of such law may give rise to a Capital Event in respect of the Certificates. In such a case, 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*".

Due to the deeply subordinated nature of the obligations arising under the Certificates, the Conditions contain limited Dissolution Events and remedies

The Certificates are perpetual instruments with no fixed redemption date and there is no obligation on the Trustee to pay the face amount of the Certificates other than in accordance with the exercise of a call option in accordance with Condition 10.1(b) (*Trustee's Call Option*) or following the occurrence of a DIB Event in accordance with Condition 12.1 (*DIB Events*). In addition, the Trustee may be prohibited from making, or instructed by DIB not to make, payments of Periodic Distribution Amounts on the Certificates in accordance with Condition 8 (*Periodic Distribution Restrictions*) and Periodic Distribution Amounts will not therefore be due other than in the limited circumstances described in the Conditions.

The Dissolution Events in the Conditions are limited to: (a) DIB Events (being (i) a default by the Mudareb for a period of seven days or more in the payment of any principal or fourteen days or more in the payment of any profit amount due and payable by it under the Mudaraba Agreement; (ii) a final determination is made by a court or other official body that DIB is insolvent or bankrupt or unable to pay its debts; (iii) an administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of DIB or DIB applies or petitions for a winding-up or administration order in respect of itself or ceases, or through an official action of its Directors threatens to cease, to carry on all or substantially all of its business or operations, except, in each case (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; or (iv) any analogous event under the laws of the UAE to those described above, and (b) Trustee Events (being similar in nature to DIB Events in respect of the Trustee), all as more fully described in the Conditions.

Moreover, pursuant to Condition 12 (*Dissolution Events and Winding-up*), upon the occurrence of any DIB Event, the Mudaraba will be liquidated in accordance with the provisions of the Mudaraba Agreement and the remedies available to the Trustee, the Delegate and/or the Certificateholders (as applicable) are limited to giving notice to the Trustee and DIB that the Certificates are, and shall immediately become, due and payable at the applicable Dissolution Distribution Amount together with any Outstanding Payments and thereafter: (i) instituting any steps, actions or proceedings for the winding-up or bankruptcy of DIB and/or (ii) proving in the winding-up of DIB and/or (iii) claiming in the liquidation of DIB and/or (iv) taking such other steps, actions or proceedings which, under the laws of the UAE, have an analogous effect to the actions referred to paragraphs (i) to (iii) above, in each case, for the payment of amounts due under the Mudaraba Agreement. Therefore, it will only be possible to enforce claims for payment of the applicable Dissolution Distribution Amount and/or Periodic Distribution Amounts in respect of the Certificates when the same have become due pursuant to the Mudaraba Agreement and the Conditions.

Furthermore, the claims of Senior Creditors of DIB will first have to be satisfied in any winding-up, bankruptcy, dissolution, liquidation or analogous proceedings before the Certificateholders may expect to obtain any amounts in respect of their Certificates and prior thereto Certificateholders will have only limited (if any) ability to influence the conduct of such winding-up, liquidation or analogous proceedings.

In addition, if a DIB Event occurs and DIB has failed to satisfy any of the Solvency Conditions or if a bankruptcy order in respect of DIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by DIB in respect of the Relevant Obligations.

Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed profit (or equivalent) rate that will be reset during the term of the instrument (as will be the case for the Certificates with effect from each Reset Date if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating profit rate levels and uncertain profit rate income. While the expected profit rate on the Certificates is fixed until the First Call Date (with a reset of the initial profit rate on the First Call Date as set out in the Conditions and every six years thereafter), the current investment return rate in the capital markets (the market return rate) typically changes on a daily basis. As the market return rate changes, the market value of the Certificates may also change, but in the opposite direction. If the market return rate increases, the market value of the Certificates would typically decrease. If the market return rate falls, the market value of the Certificates would typically increase. Certificateholders should be aware that movements in these market return rates can adversely affect the market value of the Certificates and can lead to losses for the Certificateholders if they sell the Certificates.

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 any requirement for consent or approval of the Certificateholders, vary the terms of the Mudaraba Agreement and the Certificates such that the Certificates become or remain (as appropriate) Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if DIB is notified in writing by the Financial Regulator to the effect that the face 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 is excluded (in full or, to the extent not prohibited by relevant regulatory criteria for Tier 1 Capital, in part) from 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). 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 Trustee, the Delegate or 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 Trustee in respect the Certificates is limited to the Trust Assets and the proceeds of the Trust Assets are the sole source of payments on the Certificates. Upon receipt by the Trustee of a Dissolution Notice in accordance with the terms of Condition 12.1 (*DIB Events*), the sole rights of each of the Trustee and/or the Delegate (acting on behalf of the Certificateholders), will be (subject to Condition 12.3 (*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 Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its obligations under the Transaction Documents to which it is party) or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets. 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.

After enforcing or realising the rights in respect of the Trust Assets and distributing the net proceeds of such Trust Assets in accordance with Condition 5.3, the obligations of 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 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 (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and DIB shall be (in accordance with Condition 12.3 (*Winding-up, dissolution or liquidation*)), to enforce their respective 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. 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. 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 "– *The Certificates are Perpetual Securities*"), are subordinated (see "– *The payment obligations of DIB under the Mudaraba Agreement 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*"). Furthermore, certain shareholders and related parties of DIB may participate in the offering of the Certificates. The secondary market liquidity of the Certificates may be adversely affected if, and to the extent that, such person(s) intend to adopt a buy and hold strategy in respect of the Certificates.

Application has been made for the Certificates: (i) to be admitted to the Official List and to trading on the Main Securities Market; and (ii) to the DFSA Official List and for such Certificates to be admitted to trading on NASDAQ Dubai. However, there can be no assurance that any such listing or admission to trading will occur on or prior to the Issue Date or at all or, if it does occur, that it will enhance the liquidity of the Certificates.

Accordingly, the purchase of the 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 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*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, the proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb which proceeds shall form the initial capital of the Mudaraba (the "**Mudaraba Capital**"). The Mudaraba Capital will be invested by DIB (as Mudareb), on an unrestricted co-mingling Mudaraba basis, 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 (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.

Furthermore, whilst the Mudareb has agreed in the Mudaraba Agreement to ensure that the Mudaraba Capital is invested in accordance with the Investment Plan (and with the degree of skill and care that it would exercise in respect of its own assets), the Mudaraba Agreement also provides that there is no guarantee of any return from the Mudaraba Assets. In addition, the Trustee and the 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 except to the extent such losses are caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's negligence, wilful misconduct or fraud.

Accordingly, potential investors are advised that any claim by or on behalf of the Trustee for the Mudaraba Capital following any Dissolution Event may be reduced if and to the extent that the Mudareb is able to prove that any losses to the Mudaraba Capital were not caused by: (i) the Mudareb's breach of the Mudaraba Agreement; or (ii) the Mudareb's negligence, wilful misconduct or fraud. If the Mudareb is able to provide such proof, Certificateholders may lose all or some of their investment. It is not possible to state with certainty what approach any court with jurisdiction will take in such circumstances.

Risks relating to enforcement

Compliance with the UAE bankruptcy law may affect DIB's ability to perform its obligations under the Transaction Documents

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.

Investors may experience difficulties in enforcing arbitration awards and foreign judgments in Dubai

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 12 (*Dissolution Events and Winding-up*) 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**") (or such other court with jurisdiction as the Delegate may elect).

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 incorporated in, and under the laws of, Dubai and the UAE and has its operations and the majority of its assets located in the UAE. Under current UAE federal law, the courts in the UAE 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 or uphold an agreement to resolve any disputes by arbitration contained in such documents. The enforcement of a foreign judgment or arbitral award may be a lengthy process in the UAE.

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.

Considerations relating to the non-recognition of trusts under the laws of the UAE

UAE law does not recognise the concept of trust or beneficial interests. Accordingly, if a UAE court were to consider the merits of a claim in respect of the Declaration of Trust and apply UAE law principles in doing so, there is no certainty that all of the terms of the Declaration of Trust (which is governed by English law) would be enforced by the UAE courts and the trust arrangements set out therein may be re-characterised as an agency arrangement by the UAE courts.

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 Fatwa and Sharia Supervisory Board of DIB and the Sharia Committee of Dar al Sharia Legal & Financial Consultancy LLC, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the Shariah Supervisory Committee of Standard Chartered Bank and the Fatwa and *Shari'a* Supervisory Board of Noor Bank P.J.S.C. 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 Joint Lead 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 under the Conditions or the Transaction Documents 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.

***Shari'a* requirements in relation to interest awarded by a court**

In accordance with applicable *Shari'a* principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favour by any court in connection with any dispute under the Mudaraba Agreement. Should there be any delay in the enforcement of a judgment given against DIB, judgment interest may accrue in respect of that delay and, as a result of the waiver referred to above, Certificateholders will not be entitled to receive all, or any part of, such interest.

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 at or in excess of the minimum Authorised Denomination 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 Trustee 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 Trustee 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 Trustee, in the circumstances described in Condition 12.2 (*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 the 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 holders of the Certificates then outstanding and is other than in respect of a Reserved Matter (as defined in the Declaration of Trust) or any provision of the Declaration of Trust referred to in the definition of Reserved Matter. 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

Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to: (a) certain payments from sources within the United States and payments of gross proceeds from the disposition of assets that can produce U.S. source interest and dividends; (b) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime; and (c) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

Whilst the Certificates are in global form and held within Euroclear and Clearstream, Luxembourg, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by Euroclear and Clearstream, Luxembourg. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Trustee's obligations under the Certificates and DIB's obligations under the Transaction Documents are discharged once it has paid the common depositary for Euroclear and Clearstream, Luxembourg (as registered holder of the Certificates), and neither the Trustee nor DIB has therefore any responsibility for any amount thereafter transmitted through Euroclear and Clearstream, Luxembourg and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*".

FATCA IS PARTICULARLY COMPLEX AND ITS APPLICATION TO THE TRUSTEE, 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 13 (*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 13 (*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

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise. A number of third countries and territories including Switzerland have adopted similar measures to the Savings Directive. The precise scope of what constitutes interest or similar income for the purposes of the Savings Directive is unclear and accordingly it is possible that certain payments which are made in respect of the Certificates (such as the Periodic Distribution Amounts) could be within the scope of the Savings Directive.

The Council of the European Union has adopted a Directive (the "**Amending Directive**") which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU 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 pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Trustee nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

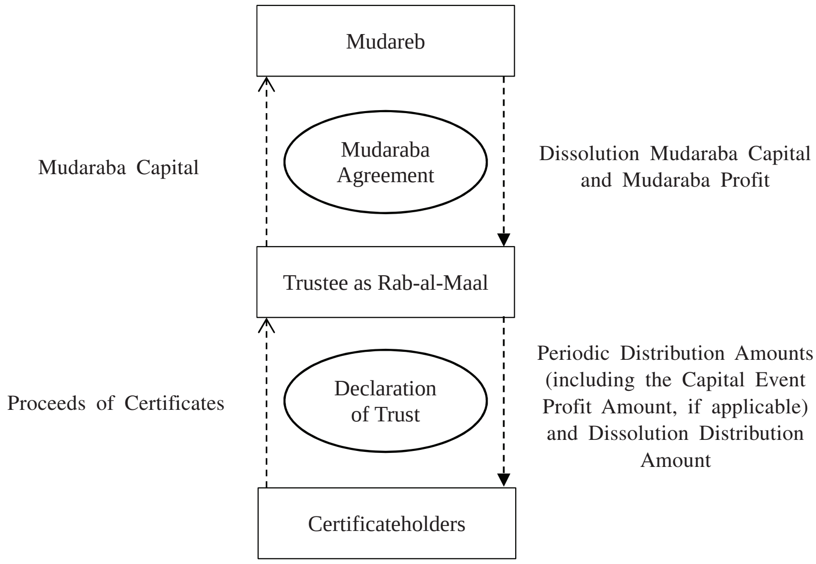
The Trustee is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. However, investors should be aware that any custodians or intermediaries through which they hold their interest in the Certificates may nonetheless be obliged to withhold or deduct tax pursuant to such laws unless the investor meets certain conditions, including providing any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

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 Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee. Pursuant to the Declaration of Trust, the Trustee will declare a trust, in favour of the Certificateholders, over:

(a) the cash proceeds of the issuance of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) 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 below);

(c) 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 the covenant given to the Trustee by DIB pursuant to clauses 12.1 and 12.8 of the Declaration of Trust); and

(d) all amounts standing to the credit of the Transaction Account from time to time,

and all proceeds of the foregoing (together, the "**Trust Assets**").

The proceeds of the issuance of the Certificates will be contributed by the Trustee (as Rab-al-Maal) to the Mudareb and shall 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 (the "**Mudaraba Assets**").

Periodic payments by the Trustee

Unless a Non-Payment Event or a Non-Payment Election has occurred, prior to each Periodic Distribution Date, the Mudareb shall distribute the profit generated by the Mudaraba to both the Trustee and the Mudareb in accordance with an agreed profit sharing ratio (99 per cent. to the Trustee (as Rab-al-Maal) and 1 per cent. to the Mudareb). The Trustee 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. 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 Trustee 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 15 nor more than 20 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 15 nor more than 20 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 10 nor more than 15 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 (2) Ltd., an exempted company incorporated with limited liability on 11 November 2014 under the laws of the Cayman Islands and formed and registered in the Cayman Islands with registered number 293615 with its registered office at MaplesFS Limited, PO Box 1093, Queensgate House, Grand Cayman, KY1-1102, 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 5 January 2015 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 P.J.S.C.
Rab-al-Maal	DIB Tier 1 Sukuk (2) 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	Al Hilal Bank P.J.S.C., Dubai Islamic Bank P.J.S.C., Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C., Noor Bank P.J.S.C., Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank.
Delegate	Deutsche Trustee 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 requested and 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 DIB 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 January 2015.
Issue Price	100 per cent.
Periodic Distribution Dates	20 January and 20 July every year, commencing on 20 July 2015.
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 6.750 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 5.126 per cent. per annum. If 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 a 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 Relevant Obligations will (a) constitute Tier 1 Capital of DIB, (b) constitute direct, unsecured, conditional 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) subject to the Solvency Conditions (as defined in the Conditions) being satisfied at the relevant time and no bankruptcy order having been issued in respect of DIB by a court in the UAE, rank in priority only to all Junior Obligations (as defined in the Conditions); see Condition 4.2 (*Subordination*).

Payments in respect of the Relevant Obligations by DIB are conditional upon (i) DIB (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations; (ii) DIB (in its capacity as Mudareb or otherwise) 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; and (iii) the total share capital (including, without limitation, retained earnings) of DIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Certificates (together, the "**Solvency Conditions**").

To the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of DIB has been issued by a court in the UAE, all claims of the Trustee in respect of the Relevant Obligations (as defined in the Conditions) will be extinguished and the Certificates will be cancelled without any further payment to be made by DIB in respect of the Relevant Obligations.

Trust Assets

The Trust Assets consist of:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) 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;

(c) 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 the covenant given to the Trustee pursuant to clauses 12.1 and 12.8 of the Declaration of Trust); and

(d) all amounts 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 absolutely for and on behalf of 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*).

Write-down at the Point of Non-Viability

If a Non-Viability Event (as defined herein) occurs, a Write-down (as defined herein) shall occur on the relevant Non-Viability Event Write-down Date (as defined herein), as more particularly described in Condition 11 (*Write-down at the Point of Non-Viability*). In such circumstances, the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in whole and the Certificates shall be cancelled. See Condition 11 (*Write-down at the Point of Non-Viability*).

A "**Non-Viability Event**" means that the Financial Regulator (as defined in the Conditions) has notified DIB in writing that it has determined that DIB is, or will become, Non-Viable without: (a) a Write-down; or (b) a public sector injection of capital (or equivalent support).

Dissolution Events

Subject to Condition 12 (*Dissolution Events and Winding-up*), if a DIB Event occurs and, 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 the Certificateholders in accordance with Condition 12.1 (*DIB Events*), the Trustee and/or the Delegate shall, subject to Condition 12.3 (*Winding-up, dissolution or liquidation*), take the actions referred to therein.

Withholding Tax

Subject to Condition 9.2 (*Payments subject to Applicable Laws*) and Condition 13 (*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 Taxes (as defined in Condition 13 (*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.

In addition, the Transaction Documents provide that payments thereunder by DIB (in its capacity as the Mudareb) shall be made free and clear of and without withholding or deduction, for and on account of, any Taxes, unless such withholding or deduction is 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 (stable) by Fitch and Baa1 (stable) 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 18 (*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 listing on the Official List and to trading on the Main Securities Market. Application has also been made to the DFSA for the Certificates to be admitted to listing on the DFSA Official List and to NASDAQ Dubai for the Certificates to be admitted to trading on NASDAQ Dubai.
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 Dubai and to the extent applicable, the federal laws of the UAE.
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 20.7 (*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 and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, DIB, any of the Agents or any of their respective affiliates. If the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate 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. DIB is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against DIB to recover payments due to the Trustee from DIB pursuant to such Transaction Documents notwithstanding any other provision of Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against DIB. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of DIB in connection with the enforcement of any such claim. See Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*) 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 UAE (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 (except for the text in italics) 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:

DIB Tier 1 Sukuk (2) Ltd. (in its capacity as issuer and in its capacity as trustee, as applicable, 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)) has issued Tier 1 Capital Certificates (the "**Certificates**") in an aggregate face amount of U.S.$1,000,000,000. The Certificates are constituted by a declaration of trust (the "**Declaration of Trust**") dated 20 January 2015 (the "**Issue Date**") made between the Trustee, Dubai Islamic Bank P.J.S.C. ("**DIB**") and Deutsche Trustee Company Limited as the delegate of the Trustee (the "**Delegate**", which expression shall include all persons for the time being appointed as the delegate or delegates under the Declaration of Trust).

Payments relating to the Certificates will be made pursuant to an agency agreement dated the Issue Date (the "**Agency Agreement**") made between 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 Agents**"), 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.

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 and/or collection 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, on behalf of the Certificateholders: (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 13 (*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 consolidated gross assets of DIB as shown (if required by any relevant party) in the latest audited or (as the case may be) auditor reviewed consolidated 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**" means the reforms to the international regulatory capital framework issued by the Basel Committee on Banking Supervision as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital and tier 2 capital instruments);

"**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;

"**Basel III Implementation Date**" means the date from which legislation, rules or other measures implementing Basel III in the UAE (or, if the Central Bank ceases to have primary bank supervisory authority with respect to DIB, in the jurisdiction of the relevant entity having primary bank supervisory authority with respect to DIB) are applied to DIB;

"**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 face 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 is excluded (in full or, to the extent not prohibited by relevant regulatory criteria for Tier 1 Capital, in part) from 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 Capital**" means capital qualifying as, and approved by the Financial Regulator as, common equity tier 1 in accordance with the Capital Regulations and, from the Basel III Implementation Date, as common equity tier 1 as implemented in Applicable Regulatory Capital Requirements at such time;

"**Day-count Fraction**" means the actual 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 which is equivalent to principal or profit (including Additional Amounts) due and payable by it pursuant to the Mudaraba Agreement and the failure continues for a period of (in the case of principal) seven days or (in the case of profit) fourteen days (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Election or 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 is passed for the winding-up or dissolution or administration of DIB or DIB applies or petitions, for a winding-up or administration order in respect of itself or ceases, or through an official action of its Directors threatens 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; or

(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 paragraphs (ii) or (iii) above.

References in paragraph (ii) 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 or the Tax Redemption Amount, as the case may be, or such other amount in the nature of a redemption amount as may be determined in accordance with these Conditions;

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

"**Dissolution Notice**" has the meaning given to it in Condition 12.1 (*DIB Events*);

"**Dissolution Request**" has the meaning given to it in Condition 12.1 (*DIB Events*);

"**Distributable Profits**" means the amount of DIB's consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law), after the transfer of any amounts to non-distributable reserves, all as calculated by DIB based on its most recent consolidated financial statements;

"**Effective Date**" means the date on which the Financial Regulator delivers a written notification to DIB which has the effect that a Capital Event would arise if the provisions of Condition 11 (*Write-down at the Point of Non-Viability*) are, at the relevant time, not effective;

"**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 January 2021;

"**First Mudaraba Profit Distribution Date**" means 20 July 2015;

"**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 Instruments;

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

"**Liabilities**" means the consolidated gross liabilities of DIB as shown (if required by any relevant party) in the latest audited or (as the case may be) auditor reviewed consolidated 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 5.126 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 Assets**" 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 these Conditions;

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

“**Mudaraba Profit Distribution Date**” means 20 January and 20 July 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*);

‘‘**Non-Viability Event**’’ means that the Financial Regulator has notified DIB in writing that it has determined that DIB is, or will become, Non-Viable without:

(i) a Write-down; or

(ii) a public sector injection of capital (or equivalent support);

“**Non-Viability Event Write-down Date**” shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 10 Business Days (or such earlier date as determined by the Financial Regulator) after the date of the Non-Viability Notice;

‘‘**Non-Viability Notice**’’ has the meaning given to it in Condition 11.3 (*Non-Viability Event*);

‘‘**Non-Viable**’’ means (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business or (b) any other event or circumstance which is specified as constituting non-viability by the Financial Regulator or in applicable banking regulations;

“**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 qualify as Common Equity Tier 1 Capital 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 January and 20 July in each year, starting on (and including) 20 July 2015;

“**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 20.5 (*Notice to Terminate*);

"**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 terms and conditions of 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 Certificates in accordance with Condition 10.1(c) (*Redemption or Variation due to Taxation*) or Condition 10.1(d) (*Redemption or Variation for Capital Event*) (as the case may be));

(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 Certificates are varied prior to the First Call Date) have a first call date no earlier than the First Call Date; and

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

and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital 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**" has the meaning given to it in Condition 5 (*The Trust*);

"**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**" in respect of a Certificate means (a) the date on which payment in respect of such Certificate first becomes due or (b) 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, the date on which, the full amount of the money having been so received, notice to that effect has been duly given to Certificateholders in accordance with Condition 17 (*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 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 claims of the Trustee in respect of 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 (including payment obligations to DIB's depositors) and all subordinated payment obligations (if any) of DIB except Pari Passu Obligations and Junior Obligations;

"**Solvency Conditions**" has the meaning given to it in Condition 4.2.2 (*Subordination*);

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

"**Subsidiary**" means any entity whose financial statements at any time are required by law or in accordance with provisions of generally accepted accounting principles to be fully consolidated with those of DIB;

"**Substituted Territory**" has the meaning given to it in Condition 12.2 (*Trustee Events*);

"**Substituted Trustee**" has the meaning given to it in Condition 12.2 (*Trustee Events*);

"**Taxes**" has the meaning given to it in Condition 13 (*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 100 per cent. of 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 100 per cent. of 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 is passed for the winding-up or dissolution or administration of the Trustee, or the Trustee applies or petitions for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens 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 paragraphs (ii) or (iii) above;

For the purpose of subparagraph (i) 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 any failure by the Mudareb to comply with the matters described in Condition 4.4(c) (*Limited Recourse and Agreement of Certificateholders*) (save in each case where such insufficient funds arise solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

"**Trustee's Territory**" has the meaning given to it in Condition 12.2 (*Trustee Events*); and

"**Write-down**" means:

(i) the Certificateholders' rights to the Trust Assets (including the Mudaraba Assets) shall automatically be deemed to be irrevocably and unconditionally written down in whole;

(ii) the Certificates shall be cancelled; and

(iii) all rights of any Certificateholder for payment of any amounts under or in respect of the Certificates (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, a Dissolution Event) shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date.

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 denominations 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 SA/NV ("**Euroclear**") and Clearstream Banking, société 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. These 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 Agency Agreement. 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

The Certificates represent an undivided ownership interest in the Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* without any preference or priority, with all other Certificates. The rights and claims of the Trustee and the Certificateholders against DIB in respect of the Relevant Obligations are subordinated as described in Condition 4.2 (*Subordination*).

4.2 Subordination

4.2.1 The payment obligations of DIB under the Mudaraba Agreement (including all payments which are the equivalent of principal and profit) (the "**Relevant Obligations**") will (a) constitute Tier 1 Capital of DIB, (b) constitute direct, unsecured, conditional 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) subject to the Solvency Conditions (as defined below) being satisfied at the relevant time and no bankruptcy order having been issued in respect of DIB by a court in the United Arab Emirates, rank in priority only to all Junior Obligations.

4.2.2 The rights and claims of the Trustee against DIB in respect of the Relevant Obligations are subordinated in right of payment to the claims of all Senior Creditors and accordingly payments in respect of the Relevant Obligations by DIB are conditional upon the following (together, the "**Solvency Conditions**"):

(i) DIB (in its capacity as Mudareb or otherwise) being Solvent at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Relevant Obligations;

(ii) DIB (in its capacity as Mudareb or otherwise) 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; and

(iii) the total share capital (including, without limitation, retained earnings) of DIB being greater than zero at all times from (and including) the first day of the relevant Periodic Distribution Period (or the Issue Date in the case of the first such period) to (and including) the time of payment of the Certificates.

4.2.3 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 (or any part thereof) or utilise the Mudaraba Profit (or any part thereof) to make payments in respect of the claims of Senior Creditors and, for the avoidance of doubt, such entitlement shall apply both in circumstances (a) where DIB (in its capacity as Mudareb or otherwise) is Solvent and/or (b) where an order has been made, or an effective resolution has been passed, for the winding-up, bankruptcy, dissolution or liquidation (or other analogous event) of DIB (in its capacity as Mudareb or otherwise).

4.2.4 Notwithstanding any other provision in these Conditions, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Mudareb has been issued by a court in the United Arab Emirates, all claims of the Trustee in respect of the Relevant Obligations will be extinguished and the Certificates will be cancelled without any further payment to be made by the Mudareb in respect of the Relevant Obligations.

4.2.5 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 12.3 (*Winding-up, dissolution or liquidation*).

4.2.6 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.

4.2.7 Nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

4.3 Other Issues

So long as any of the Certificates remain outstanding, DIB (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 and Agreement of Certificateholders

Save as provided in this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*), the Certificates do not represent an interest in any of the Trustee, the Delegate, DIB, any of the Agents or any of their respective affiliates. Each Certificateholder, by subscribing for or acquiring the Certificates, acknowledges and agrees 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 Trustee or any of its directors, officers, employees or agents on its behalf except to the extent funds are available therefor from the Trust Assets;

(b) the Trustee may not deal with the Mudaraba Assets or realise or deal with its interest, rights, title, benefit and entitlements, present and future, in to and under the Transaction Documents and the Trust Assets except in the manner expressly permitted by the Transaction Documents;

(c) the proceeds of the Trust Assets are the sole source of payments on the Certificates. Payment by the Trustee of any Periodic Distribution Amount or any amount required to redeem the Certificates is subject to receipt by the Trustee of the amounts expected to be received by it from the Mudareb in accordance with the provisions of the Mudaraba Agreement;

(d) if the net proceeds of the realisation of, or enforcement with respect to, the Trust Assets is not sufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets in the manner contemplated in the Transaction Documents) or of the Delegate or the Agents (to the extent that each of the Delegate 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 such shortfall, and no recourse shall be had, and no holder will have any claim, for the payment of any amount due and 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 the Trustee to the extent the Trust Assets have been exhausted (following which all obligations of the Trustee shall be extinguished) or the Delegate or the Agents (to the extent that each of the Delegate and the Agents (as applicable) fulfils all of its respective obligations under the Transaction Documents to which it is a party);

(e) it will not petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee or any of its directors, officers, employees, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(f) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with these Conditions or the Transaction Documents by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, director or corporate services provider of the Trustee in their capacity as such. The obligations of the Trustee under these Conditions and the Transaction Documents are corporate or limited liability obligations of the Trustee and no personal liability shall attach to or be incurred by the shareholders, members, officers, agents, directors or corporate services provider of the Trustee (in each of their respective capacities as such), save in the case of their wilful default or actual fraud. References in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party);

(g) it shall not be entitled to claim or exercise 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 any sums due under such Certificate. No collateral is or will be given for the payment obligations under the Certificates; and

(h) 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.

DIB is obliged to make certain payments under the Transaction Documents directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and/or the Delegate will, subject to Condition 4.2 (*Subordination*) and Condition 12.3 (*Winding-up, dissolution or liquidation*), have direct recourse against DIB to recover payments due to the Trustee from DIB pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4.4 (*Limited Recourse and Agreement of Certificateholders*). Such right of the Trustee and the Delegate shall constitute an unsecured claim against DIB. None of the Certificateholders, the Trustee and the Delegate shall be entitled to claim any priority right in respect of any specific assets of DIB in connection with the enforcement of any such claim.

5 The Trust

5.1 DIB Tier 1 Sukuk (2) 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, it shall constitute *pro rata* undivided assets in the General Mudaraba Pool (the "**Mudaraba Assets**") in accordance with the Mudaraba Agreement, which shall include an investment plan prepared by the Mudareb and shall constitute a mudaraba (the "**Mudaraba**").

The Trustee has opened a transaction account (the "**Transaction Account**") in its own name with the Principal Paying Agent (details of which are set out in the Declaration of Trust) into which the Mudareb will pay all amounts due to the Trustee under the Mudaraba Agreement. If the Trustee is substituted in accordance with Condition 12.2 (*Trustee Events*), the Substituted Trustee will open a new transaction account in its name with the Principal Paying Agent into which the Mudareb 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.

5.2 Pursuant to the Declaration of Trust, the Trustee holds:

(a) the cash proceeds of the issue of the Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) 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;

(c) 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 the covenant given to the Trustee pursuant to clauses 12.1 and 12.8 of the Declaration of Trust); and

(d) all amounts 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 and on behalf of 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.

5.3 On each Periodic Distribution Date and on any date fixed for payment of the Dissolution Distribution Amount, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority (in each case, only if and to the extent that payments of a higher priority have been made in full):

(a) first (to the extent not previously paid), to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate in accordance with the Declaration of Trust;

(b) second, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*, (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; (ii) the Trustee Administrator in respect of all amounts owing to it under the Transaction Documents, the Corporate Services Agreement and the Registered Office Agreement in its capacity as trustee administrator; and (iii) each Agent in respect of all amounts owing to such Agent on account of its fees, costs, charges and expenses and the payment or satisfaction of any Liability incurred by such Agent pursuant to the Agency Agreement or the other Transaction Documents in its capacity as Agent;

(c) third, only if such payment is due on a Periodic Distribution Date, and subject to Condition 8 (*Periodic Distribution Restrictions*), in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts (including Additional Amounts) due but unpaid;

(d) fourth, only if such payment is due on a date fixed for payment of the Dissolution Distribution Amount, in or towards payment *pari passu* and rateably of the Dissolution Distribution Amount; and

(e) fifth, only after all amounts required to be paid in respect of the Certificates have been discharged in full, in payment of any residual amount to DIB.

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 financed, borrowed or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of *Shari'a* or otherwise), or give any guarantee or indemnity 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 by 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 (if any) or under or pursuant to any of the Transaction Documents);

(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 any of 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 Certificate or Transaction Document (other than in accordance with the terms thereof), 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 these 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 Conditions 4.2.4 (*Subordination*), 4.4 (*Limited Recourse and Agreement of Certificateholders*), 7.3 (*Cessation of Accrual*), 8 (*Periodic Distribution Restrictions*), 9 (*Payments*) and 11 (*Write-down at the Point of Non-Viability*), the Trustee 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.$33.750 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*).

7.3 Cessation of Accrual

Subject to Conditions 4.2.4 (*Subordination*), 8 (*Periodic Distribution Restrictions*) and 11 (*Write-down at the Point of Non-Viability*), 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 these 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 6.750 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, the Irish Stock Exchange and NASDAQ Dubai and to be notified to Certificateholders in accordance with Condition 17 (*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 (and, as a result, Rab-al-Maal Mudaraba Profit) or Final Mudaraba Profit (and, as a result, Rab-al-Maal 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 amount equal to the then applicable Periodic Distribution Amount to be paid by DIB out of the Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, as applicable (the "**Relevant Rab-al-Maal Mudaraba Profit Amount**"), when aggregated with any distributions or amounts payable by DIB (in its capacity as Mudareb or otherwise) on the same date (or otherwise due and payable on such date) on any other obligations in respect of Pari Passu Obligations, exceeds, on the relevant date for payment of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit, Distributable Profits; or

(ii) DIB (in its capacity 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 payment restrictions due to a breach of any capital buffers imposed on DIB by the Financial Regulator) or payment of the Relevant Rab-al-Maal Mudaraba Profit Amount (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 Amount 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, in each case, on account of DIB making a net loss during the relevant financial period or for any other reason as it may deem necessary; or

(iv) the Solvency Conditions are not satisfied (or would no longer be met if the Relevant Rab-al-Maal Mudaraba Profit Amount 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, provided that the foregoing in this Condition 8.2 (*Non-Payment Election*) shall not apply in respect of Rab-al-Maal Final Mudaraba Profit payable on any Mudaraba End Date (any such election being a "**Non-Payment Election**").

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

If a Non-Payment Election or a Non-Payment Event occurs, then DIB shall (i) in the case of a Non-Payment Election, no later than 7 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 five Business Days prior to the relevant Mudaraba Profit Distribution Date or Mudaraba End Date, as the case may be, give notice to the Trustee and the Principal Paying Agent in accordance with the Mudaraba Agreement, the Delegate in accordance with the Declaration of Trust and Certificateholders in accordance with Condition 17 (*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 obligation 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, Rab-al-Maal Final 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, any class of 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) declare or 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 restriction 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 the next following payment of Rab-al-Maal Mudaraba Profit or (as the case may be) Rab-al-Maal Final Mudaraba Profit following the Dividend Stopper Date has 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 Trustee 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 thereto in the place of payment, but without prejudice to the provisions of Condition 13 (*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, 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 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 17 (*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 Conditions 4.2 (*Subordination*), 11 (*Write-down at the Point of Non-Viability*) and Condition 12.3 (*Winding-up, dissolution or liquidation*) and without prejudice to the provisions of Condition 14 (*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 these Conditions, in each case pursuant to this Condition 10 (*Redemption and Variation*), is subject to the following conditions (in addition to those set out elsewhere in this Condition 10.1 (*Redemption and variation*)):

(i) (except to the extent that the Financial Regulator no longer so requires) DIB having obtained the prior consent of the Financial Regulator;

(ii) (except to the extent that the Financial Regulator no longer so requires) at the time when the relevant notice of redemption or variation is given, DIB is in compliance with the Applicable Regulatory Capital Requirements;

(iii) (except to the extent that the Financial Regulator no longer so requires) immediately following such redemption or variation (as applicable), DIB will be in compliance with the Applicable Regulatory Capital Requirements;

(iv) the Solvency Conditions are satisfied; and

(v) (in the case of a redemption or variation pursuant to Conditions 10.1(c) (*Redemption or Variation due to Taxation*) or 10.1(d) (*Redemption or Variation for Capital Even*t) only) the Tax Law Change or Capital Event, as the case may be, becomes, or would become, effective on or after the Issue Date.

(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 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*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*) and the provisions of this Condition 10.1(c) (*Redemption or Variation due to Taxation*), if a Tax Event occurs, the Trustee shall (upon the instructions of DIB (acting in its sole discretion)), by giving not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 17 (*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 Mudaraba Agreement and the Certificates such that the Certificates remain or become, as the case may be, 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 these 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 Certificates, as so varied, are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy paragraph (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.

The Capital Regulations, as in force at the time of implementation of Basel III reforms in the UAE, may oblige DIB to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Tax Law Change was not reasonably foreseeable as at the Issue Date.

(d) Redemption or Variation for Capital Event

(i) Subject to Condition 10.1(a) (*No Fixed Redemption Date and Conditions for Redemption and Variation*) and the provisions of this Condition 10.1(d) (*Redemption or Variation for Capital Event*), if a Capital Event occurs, the Trustee shall (upon the instructions of DIB (acting in its sole discretion)), by giving not less than 10 nor more than 15 days' prior notice to the Certificateholders in accordance with Condition 16 (*Replacement of Certificates*) 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 the Applicable Regulatory Capital Requirements, vary the terms of the Mudaraba Agreement and the Certificates such that the Certificates remain or become, as the case may be, 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 these 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 Certificates, as so varied, are Qualifying Tier 1 Instruments and the Financial Regulator has confirmed that they satisfy paragraph (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.

The Capital Regulations, as in force at the time of implementation of Basel III reforms in the UAE, may oblige DIB to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event was not reasonably foreseeable as at the Issue Date.

(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) the Certificates remain or become, as the case may be, 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, (B) being in compliance with the Applicable Regulatory Capital Requirements, and (C) satisfying the Solvency Conditions at the time of purchase, DIB or any of its Subsidiaries, may at any time after the First Call Date purchase the Certificates in the open market or otherwise at such price(s) and upon such other conditions as may be agreed upon between DIB or the relevant Subsidiary (as the case may be) and the relevant Certificateholder(s). Upon any such purchase, DIB shall deliver such Certificates to any Paying Agent 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 (*Purchase*), will forthwith be cancelled and accordingly may not be held, reissued or resold.

11 Write-down at the Point of Non-Viability

11.1 Effectiveness of this Condition 11

The provisions of this Condition 11 (*Write-down at the Point of Non-Viability*) will apply with effect from (and including) the Effective Date. Forthwith following the occurrence of the Effective Date, DIB shall give notice of such occurrence to the Trustee and the Principal Paying Agent in accordance with clause 24 of the Agency Agreement and the Trustee shall then immediately give notice of such occurrence to the Certificateholders in accordance with Condition 17 (*Notices*).

11.2 Non-Viability Event

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 11.3 (*Non-Viability Notice*).

It is the Mudareb's current intention to procure, to the extent permitted under applicable regulations and the terms and conditions or articles and by-laws governing its capital instruments, that a Write-down will take place: (1) after the common shares in the Mudareb absorb losses (if and to the extent such loss absorption is permitted at the relevant time under all relevant rules and regulations applicable to the Mudareb at such time) and the Financial Regulator has not notified the Mudareb in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously with the write-down of any of the Mudareb's other obligations in respect of Tier 1 Capital and any other trust certificates and other instruments related to the Mudareb's other obligations constituting Tier 1 Capital; and (3) prior to the write-down or write-off of any of the Mudareb's obligations in respect of tier 2 capital and any other trust certificates and other instruments related to the Mudareb's *other obligations constituting tier 2 capital, provided that in the case of (2) and (3) above, this will only apply to the extent such other instruments have contractual provisions for such analogous write-down at the point of non-viability or are subject to a statutory framework that provides for such analogous write-down. However, the Mudareb may at any time depart from this policy at its sole discretion.*

11.3 Non-Viability Notice

On the third Business Day following the date on which such Non-Viability Event occurs (or on such earlier date as determined by the Financial Regulator), the Mudareb will notify the Trustee thereof in accordance with the Mudaraba Agreement and the Trustee will then notify the Certificateholders thereof and the Principal Paying Agent in accordance with Condition 17 (*Notices*) (a "**Non-Viability Notice**"). A Write-down will occur on the Non-Viability Event Write-down Date and, with effect from such date, the Mudaraba Agreement will be automatically terminated and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets.

12 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.

12.1 DIB Events

If a DIB Event occurs, the Delegate (provided it shall have been given notice thereof by the Trustee or DIB or otherwise upon becoming aware of the DIB Event) shall promptly give notice of the occurrence of such DIB Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed and the Trust to be dissolved (a "**Dissolution Request**"). The Delegate may and, 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, shall (but in each case subject to Condition 12.3(e)(i) (*Realisation of Trust Assets*)), give notice (a "**Dissolution Notice**") to the Trustee that the Certificates are immediately due and payable at the aggregate face amount of the outstanding Certificates together with any Outstanding Payments, whereupon the aggregate face amount of the outstanding Certificates together with any Outstanding Payments shall become immediately due and payable. A Dissolution Notice may be given whether or not a Dissolution Request has been given to Certificateholders.

12.2 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 13 (*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 13 (*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 12.2 (*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).

(iii) If DIB fails to comply with the foregoing provisions of this Condition 12.2 (*Trustee Events*) within 60 days of the occurrence of the relevant Trustee Event, Conditions 12.1 (*DIB Events*) and 12.3 (*Winding-up, dissolution or liquidation*) shall apply to the relevant Trustee Event as if it was a DIB Event.

12.3 Winding-up, dissolution or liquidation

(a) Proceedings for Winding-up

If a DIB Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*DIB 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 (subject in each case to Condition 12.3(e)(i) (*Realisation of Trust Assets*)) (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 and/or (v) take such other steps, actions or proceedings which, under the laws of the United Arab Emirates, have an analogous effect to the actions referred to (i) to (iii) above, 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, provided, however, that the Trustee or the Delegate may only take any such steps, actions or proceedings as described in this Condition 12.3(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 12.1 (*DIB 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 12.1 (*DIB Events*) and the remaining provisions of this Condition 12.3 (*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 12.3(e)(i) (*Realisation of Trust Assets*)) 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 12.2 (*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 in accordance with the Transaction Documents. Nothing in this Condition 12.3 (*Winding-up, dissolution or liquidation*) shall, however, prevent the Trustee (or the Delegate) from taking such steps, actions or proceedings as described in Condition 12.3(a) (*Proceedings for Winding-up*) 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) Non-Viability and Solvency Conditions

All claims by the Delegate and/or the Certificateholders against the Trustee under the Certificates and all claims by the Trustee (or the Delegate) against DIB under the Transaction Documents (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Trustee and/or DIB under the Certificates or the Transaction Documents, as the case may be) shall be subject to, and shall be superseded by: (i) the provisions of Condition 11 (*Write-down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim and (ii) the provisions of Condition 4.2.4, irrespective of whether the breach of a Solvency Condition at the relevant time or the issue of a bankruptcy order in respect of DIB occurs prior to or after the event which is the subject matter of the claim, in each case provided that nothing in these Conditions shall affect or prejudice the payment of the costs, charges, expenses, liabilities or remuneration of the Delegate or the rights and remedies of the Delegate in respect thereof, all of which shall accordingly remain unsubordinated.

(d) Extent of Certificateholder remedy

No remedy against DIB, other than as referred to in this Condition 12 (*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.

(e) Realisation of Trust Assets

(i) Neither the Trustee nor the Delegate shall be bound to take any steps, actions or proceedings to enforce or to realise the Trust Assets or any of the actions, steps or proceedings 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 this Condition 12 (*Dissolution Events and Winding-up*)), unless (1) it shall have been so requested by an Extraordinary Resolution of the Certificateholders or in writing by Certificateholders holding 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.

(ii) No Certificateholder shall be entitled to proceed directly against the Trustee or DIB or to take the actions, steps or proceedings referred to in Conditions 12.3(a) (*Proceedings for Winding-up*) and 12.3(b) (*Enforcement*) above, unless (i) the Trustee or the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is 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 12.1 (*DIB Events*) and this Condition 12.3 (*Winding-up, dissolution or liquidation*).

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

(iv) The foregoing paragraphs in this Condition 12.3(e) (*Realisation of Trust Assets*) are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the net proceeds thereof in accordance with the Declaration of Trust, the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against 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 remaining 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 Trustee.

13 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, levied, collected, withheld or assessed 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) 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

(b) 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

(c) 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 or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) 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 (and related expressions including, without limitation, the "**face amount**" of the Certificates and "**Outstanding Payments**") shall be deemed to include any Additional Amounts payable under this Condition 13 or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

Notwithstanding any other provision in these Conditions, the Trustee and the Paying Agents shall be permitted to withhold or deduct any amounts imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (or any regulations thereunder or official interpretations thereof), any intergovernmental agreement facilitating the implementation thereof, implementing legislation adopted by another jurisdiction in connection with these provisions, or any agreement with the U.S. Internal Revenue Service ("**FATCA withholding**"). Neither the Trustee nor 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 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 provides that payments made thereunder by DIB (in its capacity as the Mudareb) to the Trustee shall be made without any withholding or deduction of Taxes unless 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.

14 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 or Outstanding Payments) from the Relevant Date in respect thereof.

15 Delegate

15.1 Delegation of Powers

The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its 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 the present and future duties, powers (including the power to sub-delegate), trusts, rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the "**Delegation**" of the "**Relevant Powers**"), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

15.2 Indemnification

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Condition 12 (*Dissolution Events and Winding-up*), and then only if it shall also have been indemnified and/or secured and/or pre-funded to its satisfaction.

15.3 No Liability

(a) The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of DIB or the Trustee under the Transaction Documents 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 paid by DIB or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

(b) Each of the Trustee and the Delegate is exempted from: (i) any liability in respect of any loss or theft of the Trust Assets or any cash; (ii) any obligation to insure the Trust Assets or any cash; and (iii) 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 actual fraud, wilful default or gross negligence by the Trustee or the Delegate, as the case may be.

15.4 Reliance on Certificates, Reports and/or Information

The Delegate may rely on any certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or DIB or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such certificate, report, information and/or any engagement letter or other document entered into by the Delegate or any other person in connection therewith contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or DIB or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such certificate, report or information may be limited by an engagement or similar letter or by the terms of the certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability, delay or inconvenience that may be occasioned by its failure to do so.

15.5 Proper performance of duties

Nothing shall, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or actual fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

15.6 Notice of Events

The Delegate shall not be responsible for monitoring or ascertaining whether or not a Non-Payment Event, Capital Event, Tax Event, Non-Viability Event, Dissolution Event or Potential Dissolution Event has occurred or exists or is continuing or will occur or exist and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred or is continuing (without any liability to the Certificateholders or any other person for so doing).

16 Replacement of Certificates

If a definitive Certificate is 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 competent 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.

17 Notices

Notices to Certificateholders 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 addresses in the Register. 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 given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation.

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 the Principal Paying Agent.

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

18.1 The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Declaration of Trust) present holding or representing in 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 whatever the face amount of the Certificates held or represented, except that any meeting the business of which includes consideration of proposals, *inter alia*, (i) to modify any date for payment in respect of the Certificates, (ii) to reduce or cancel or vary the method for calculating the amount of any payment due in respect of the Certificates, (iii) to change any of the Trustee's and DIB's covenants set out in the Transaction Documents, (iv) to alter the currency of payment or denomination of the Certificates, (v) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass the Extraordinary Resolution, (vi) to sanction any such scheme or proposal or substitution as is described in paragraphs 5.9.9 and 5.9.10 of Schedule 4 to the Declaration of Trust, or (vii) to amend the above list or the proviso to paragraph 4.6 of Schedule 4 to the Declaration of Trust, in which case the quorum shall be one or more Eligible Persons holding or representing in aggregate not less than two-thirds, or at any adjourned such meeting not less than one-third, in 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 aggregate face amount of the Certificates then outstanding (a "**Written Resolution**") or (iii) where the Certificates are held by or on behalf of a clearing system or clearing systems, approval given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures (in a form satisfactory to the Delegate) by or on behalf of the holders of not less than 75 per cent. in aggregate face amount of the Certificates then outstanding (an "**Electronic Consent**"). Any Extraordinary Resolution, if duly passed, will be binding on all Certificateholders, whether or not they were present at the meeting at which such resolution was passed and whether or they voted.

18.2 The Declaration of Trust provides that a Written Resolution or an Electronic Consent 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 Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders. Such a Written Resolution and/or Electronic Consent will be binding on all Certificateholders whether or not they participated in such Written Resolution or Electronic Consent.

18.3 The Delegate may, without the consent of the Certificateholders (i) agree to any modification to these Conditions, any provisions of the Transaction Documents or to the Trustee's memorandum and articles of association which, in the opinion of the Delegate, is of a formal, minor or technical nature or is made to correct a manifest error; (ii) agree to any modification (other than in respect of a Reserved Matter) of these Conditions, the Declaration of Trust, any other Transaction Document or the Trustee's memorandum and articles of association, 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 (iii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, provided in the case of paragraphs (i) and (ii) that such modification, waiver, authorisation or determination is not, in the opinion of the Delegate, materially prejudicial to the interests of Certificateholders (except as set out in the Declaration of Trust) and that such waiver, authorisation or determination is not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least one-fifth of the outstanding aggregate face amount of the Certificates.

18.4 In connection with the exercise by it of any of its powers, authorities and discretions (including, without limitation, those referred to in this Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorisation and Determination*), the Delegate shall have regard to the 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 13 (*Taxation*).

18.5 Any modification, 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 17 (*Notices*).

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 (including these Conditions) and the Certificates, 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 (*Option to Litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Declaration of Trust (including these Conditions) and the Certificates (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 of the LCIA (the "**Rules**"), 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 and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly, shall each nominate one arbitrator. If one party or both parties fail to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

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

20.3 Option to Litigate

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 its 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) if no arbitration has 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 20.5 (*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.

20.4 Notice to Terminate

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 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, 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.

20.5 Submission to jurisdiction

If a notice is issued pursuant to Condition 20.3 (*Option to Litigate*), 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 20.5 (*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.

20.6 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 20.6 (*Appointment of Process Agent*). Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.7 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.

20.8 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 20.8 (*Waiver of Interest*) 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 these 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 business on the record date which shall be the Clearing System Business Day immediately prior to the due date for payment (where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January).

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 17 (*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 Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system, and any such clearing system has been closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so. 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 TRUSTEE

General

DIB Tier 1 Sukuk (2) Ltd., a Cayman Islands exempted company with limited liability, was incorporated on 11 November 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 293615. The Trustee 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 Trustee 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 Trustee is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1 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 "**Share Declaration of Trust**") under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share 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 Share 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 Trustee

The Trustee 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 Trustee alone and not the Share Trustee.

The objects for which the Trustee is established are set out in clause 3 of its Memorandum of Association as registered or adopted on 11 November 2014.

Financial Statements

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

Directors of the Trustee

The Directors of the Trustee are as follows:

Name:	Principal Occupation:
Aaron Bennett..................	Vice President of Maples Fund Services (Middle East) Limited
Cleveland Stewart............	Senior Vice President of MaplesFS Limited

The business address of Aaron Bennett is c/o Maples Fund Services (Middle East) Limited, Liberty House, 6th Floor, Office 616, PO Box 506734, Dubai, UAE.

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 Trustee.

The Administrator

MaplesFS Limited also acts as the corporate administrator of the Trustee (in such capacity, the "**Corporate Administrator**"). The office of the Corporate Administrator serves as the general business office of the Trustee. Through the office, and pursuant to the terms of a corporate services agreement entered into between the Trustee and the Corporate Administrator (the "**Corporate Services Agreement**"), the Corporate Administrator has agreed to perform in the Cayman Islands, the UAE and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and to provide certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee 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 Trustee. In consideration of the foregoing, the Corporate Administrator will receive various fees payable by the Trustee 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 Trustee 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 Trustee'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 Trustee are all employees or officers of the Corporate Administrator or an affiliate thereof. The Trustee 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 2011 set out in this "*Selected Financial Information*" section has been extracted from the restated 2011 financial information contained in the 2013 Financial Statements or DIB's management accounts and not from DIB's audited consolidated financial statements as at and for the year ended 31 December 2011 as originally published or published in the 2012 Financial Statements. All financial information relating to DIB as at and for the year ended 31 December 2012 set out in this "*Selected Financial Information*" section has been extracted from the restated 2012 financial information contained in the 2013 Financial Statements and not from DIB's audited consolidated financial statements as at and for the year ended 31 December 2012 as originally published. See "*Presentation of certain financial and other information*" above.

The following table sets forth selected financial information for DIB for the nine month period ended 30 September 2014 and for the years ended 31 December 2013, 31 December 2012 and 31 December 2011. The income statement data and statement of financial position data have been extracted from the Financial Statements or DIB's management accounts as detailed above 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 nine month period ended 30 September 2014 and for the three financial years ended 31 December 2013, 31 December 2012 and 31 December 2011.

	For the period ended 30 September		For the year ended 31 December		
Income Statement Highlights	**2014**	**2013**	**2013**	**2012**	**2011**
			(AED millions)		
Income from Islamic financing transaction	3,237	3,026	4,030	3,946	4,221
Total income	4,708	4,024	5,288	5,292	5,314
Impairment loss on financial assets	469	665	920	973	995
Impairment loss on non-financial assets	69	86	(96)	121	244
Depositors' share of profit	604	849	1,054	1,352	1,408
Net profit before tax	2,077	1,203	1,722	1,226	1,084
Net profit	2,060	1,200	1,718	1,213	1,077
Net profit attributable to equityholders	1,954	1,135	1,611	1,150	1,010

	As at 30 September	As at 31 December		
Financial Statement Highlights	**2014**	**2013**	**2012**	**2011**
		(AED millions)		
Total assets	128,479	113,288	98,611	93,945
Total liabilities	111,204	96,946	86,918	82,662
Total equity	17,275	16,342	11,693	11,283
Gross financing and investing assets and investments in bilateral sukuk[(1)]	79,428	64,317	62,555	58,299
Impaired financing and investing assets	5,401	5,654	6,118	6,808
Non performing investing and financing assets	6,515	7,142	8,090	8,078
Collateral held relating to facilities individually determined to be impaired[(2)]	3,628	4,000	5,541	4,999
Provisions for impairment[(3)]	4,997	4,573	3,699	3,509
Customer deposits	95,500	79,061	66,726	64,771

Income Statement Highlights	For the period ended 30 September 2014	2013	For the year ended 31 December 2013	2012	2011
			(USD millions)		
Income from Islamic financing transaction	881	824	1,097	1,074	1,149
Total income	1,282	1,096	1,440	1,441	1,447
Impairment loss on financial assets	128	181	251	265	271
Impairment loss on non-financial assets	19	23	(26)	33	66
Depositors' share of profit	164	231	287	368	383
Net profit before tax	566	328	469	334	295
Net profit	561	327	468	330	293
Net profit attributable to equity holders	532	309	439	313	275

Financial Statement Highlights	As at 30 September 2014	As at 31 December 2013	2012	2011
		(USD millions)		
Total assets	34,984	30,848	26,851	25,581
Total liabilities	30,280	26,398	23,667	22,508
Total equity	4,704	4,450	3,184	3,073
Gross financing and investing assets and investments in bilateral sukuk(1)	21,628	17,513	17,033	15,875
Impaired financing and investing assets	1,471	1,540	1,666	1,854
Non performing investing and financing assets	1,774	1,945	2,203	2,200
Collateral held relating to facilities individually determined to be impaired(2)	988	1,089	1,509	1,361
Provisions for impairment(3)	1,361	1,245	1,007	955
Customer deposits	26,004	21,528	18,169	17,637

Key Business Ratios	As at 30 September 2014	As at 31 December 2013	2012	2011
		(%)		
Impaired ratio(6)	6.8	8.8	9.8	11.7
Non-performing asset ratio	8.2	11.1	12.9	13.9
Provision coverage ratio(4)	76.7	64.0	45.7	43.4
Overall coverage ratio(5)	132.4	120.0	114.2	105.3
Total capital adequacy ratio(7)	15.5	18.2	17.4	18.2
Common Equity Tier 1 ratio	15.2	18.2	13.9	13.6
Return on equity(8)	17.7	13.8	13.0	11.2
Return on assets(9)	2.3	1.6	1.3	1.1
Net profit margin	3.4	3.3	3.3	3.5

Notes:

(1) Balance as at 30 September 2014 includes gross financing and investing assets amounting to AED 76,122 million (2013: AED 60,644 million, 2012: AED 58,882 million and 2011: AED 54,626 million) and investments in bilateral sukuk amounting to AED 3,306 million (2013: AED 3,673 million, 2012: AED 3,673 million and 2011: AED 3,673 million). See Notes 8(a) and 9(c) to the 2013 Financial Statements. Refer to "Presentation of certain financial and other information" for a description of certain reclassifications made in the 2013 Financial Statements.

(2) See Note 8(d) to the 2013 Financial Statements.

(3) Balance at the end of the relevant period. See Note 7(a) to the September 2014 Reviewed Financial Statements, Notes 8(a) and 8(b) to the 2013 Financial Statements.

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

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

(6) Being, in respect of September 2014, 2013, 2012 and 2011, the ratio of impaired assets to gross financing and investing assets, and investments in bilateral sukuk.

(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 P.J.S.C.

Overview

Dubai Islamic Bank P.J.S.C. ("**DIB**") is the world's first full service Islamic bank and is one of the largest Islamic banks in the world, in terms of assets. DIB was established in 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 at 30 September 2014, DIB ranked as the largest Islamic bank in the UAE in terms of assets, capital and branches, and also ranked amongst the top five banks in the UAE in terms of balance sheet size, customer deposits, financing assets and net profit.

The core business areas of DIB and its consolidated subsidiaries and associates (together, the "**Group**") are Retail & Business Banking, Corporate Banking, 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 88 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 +971 4 295 3000. 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:

- "UAE Deal of the Year" (U.S.$750 million *sukuk* for Dubai Department of Finance), "Kuwait Deal of the Year" (U.S.$172 million financing for the Kharafi Group) and "Pakistan Deal of the Year" (PKR 43.01 billion *ijarah sukuk* for the Pakistan Government) – **Islamic Finance News Awards 2014**.

- "Best Islamic Card" for a second consecutive year and "Best SME Card" – **Banker Middle East Product Awards 2014**.

- "Best Islamic Bank" and "Best Investment Bank" – **Banker Middle East Industry Awards 2014**.

- "Islamic Bank of the Year – UAE" and "Most Established Bank of the Year – UAE" – **2014 Business Excellence Awards**.

- "Best Sukuk House, UAE" – **EMEA Finance Middle East Banking Awards 2013**.

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, in March 2000, DIB was 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.

In 2002 DIB acquired a 27.3 per cent. stake in Bosna Bank, the first *Shari'a*-compliant bank in Europe, which was established in 2000.

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 2006 and further reduced to 28.4 per cent. in 2008. As at 30 September 2014, DIB's stake in BoK remains at 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 of 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 P.J.S.C. ("**Deyaar Development**") in 2002) 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 2007).

In November 2010, DIB increased its stake in Tamweel to 58.3 per cent. (see "*– Subsidiaries and Associates – Tamweel*"). 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 offered 10 New Shares for every 18 shares in Tamweel held by a Tamweel minority shareholder (see "*– Subsidiaries and Associates – Tamweel P.J.S.C. (UAE)*"). The Tender Offer was accepted by most of the Tamweel minority shareholders and increased DIB's shareholding in Tamweel from 58.3 per cent. to 86.5 per cent.

In January 2013, in view of a new definition and guidance on subsidiaries, in IFRS 10, Consolidated Financial Statements, DIB's management reassessed DIB's control over its investees. As a result DIB's management concluded that, although DIB owns less than 50 per cent. of Deyaar Development, it has *de facto* control over the company (because DIB is exposed to significant variable returns from its involvement with Deyaar Development and has the ability to affect the amounts of its returns through its power over the company). Deyaar Development is currently accounted for as a consolidated subsidiary of DIB whereas, previously, Deyaar Development was treated as an associate in DIB's accounts and was accounted for under an equity method of accounting.

In May 2014, DIB acquired a 24.9 per cent. stake in PT Bank Panin Syariah Tbk ("**Bank Panin Syariah**") of Indonesia. Bank Panin Syariah is treated as an associate in the Group's financial statements as at 30 September 2014.

Following the completion of this acquisition, DIB has initiated the formal regulatory approval process to obtain "Significant Shareholder Status" from the Indonesia Financial Services Authority ("**OJK**"). Upon being granted this approval by the OJK, DIB will complete the second phase of its share purchase plan to increase its stake in Bank Panin Syariah to up to 40 per cent. This is currently expected to be completed by the end of the first quarter of 2015.

Bank Panin Syariah offers Islamic banking services in Indonesia. DIB intends to cooperate with Bank Panin Syariah in order to promote the growth of *Shari'a* banking in Indonesia. To achieve this, DIB will provide its well-established expertise in Islamic banking operations to Bank Panin Syariah, which will be bolstered by Bank Panin Syariah's knowledge of the local market.

Bank Panin Syariah is currently controlled by PT Bank Panin and currently operates through a network of 10 branches (with its head office located at Panin Life Center Building, Jakarta). Bank Panin Syariah is listed on the Indonesia Stock Exchange.

During 2008, DIB received AED 3.75 billion of *wakala* deposits (the "**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. DIB subsequently repaid the entire amount of the Wakala Deposits in April 2013, ahead of their scheduled maturity, using its own excess liquidity.

Shareholders and Capital Structure

Shareholders

The Government of Dubai holds 27.9 per cent. of the share capital of DIB and the Saeed Ahmed Lootah family holds 6.9 per cent.. 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 at each of 31 December 2012 and 31 December 2011, DIB's authorised, issued and paid up share capital was AED 3.8 billion (U.S.$1.0 billion). During the year ended 31 December 2013, DIB issued 156.7 million shares at a fair value of AED 2.02 per share to the minority shareholders of Tamweel, who accepted DIB's offer of swapping 10 New Shares for every 18 Tamweel shares. This transaction increased DIB's shareholding in Tamweel to 86.5 per cent. and the difference of AED 327.0 million between the fair value of the 156.7 million New Shares and the carrying amount of the non-controlling interest acquired is recognised in DIB's financial statements as retained earnings. As a result of this issuance, DIB's authorised, issued and paid up share capital was AED 4.0 billion (U.S.$1.1 billion) as at each of 30 September 2014 and 31 December 2013.

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

Pursuant to DIB's articles of association, DIB's Board of Directors decided to allow non-UAE nationals to own, in aggregate, up to a maximum of 25 per cent. of the total share capital of DIB. Previously, non-UAE nationals could, 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 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011.

Tier 1 sukuk

In March 2013, DIB, through a *Shari'a*-compliant sukuk arrangement, issued Tier 1 sukuk amounting to U.S.$1.0 billion (AED 3,673 million) in face amounts of U.S.$200,000 (AED 734,500) and integral multiples of U.S.$1,000 (AED 3,673) in excess thereof. The Tier 1 sukuk issue was approved by DIB's shareholders at an extraordinary general meeting held on 4 March 2013.

The Tier 1 sukuk are perpetual securities in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations (senior only to share capital) of DIB, subject to the terms and conditions of the *mudaraba* agreement relating to the issuance. The Tier 1 sukuk are listed on the Irish Stock Exchange and NASDAQ Dubai and are callable by DIB on 20 March 2019 or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of the Tier 1 sukuk are invested by way of mudaraba with DIB (as *mudareb*), on an unrestricted co-mingling basis, in DIB's general business activities carried out through its general mudaraba pool.

The Tier 1 sukuk bear an expected profit rate of 6.25 per cent. per annum to be paid semi-annually in arrear until 20 March 2019. After that date, the expected profit rate will be reset based on the then prevailing six year U.S. Mid Swap Rate plus a margin of 495.5 basis points.

The mudareb may instruct the Tier 1 sukuk issuer not to make any expected mudaraba profit distribution and such non-payment does not constitute a dissolution event. In the event of such non-payment election, the mudaraba profit will not be accumulated. If the Tier 1 sukuk issuer makes a non-payment election or if a non-payment event occurs, then DIB will not (a) 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, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by DIB.

Overall Performance

Overview

DIB reported net profits of AED 2,060 million (U.S.$561 million) for the nine month period ended 30 September 2014, as compared to AED 1,200 million (U.S.$327 million) for the nine month period ended 30 September 2013. DIB's net funded income amounted to AED 2,633 million (U.S.$717 million) for the nine month period ended 30 September 2014 compared to AED 2,176 million (U.S.$592 million) for the period ended 30 September 2013.

DIB's non-funded income increased by 47 per cent. to AED 1,471 million (U.S.$401 million) for the nine month period ended 30 September 2014 from AED 999 million (U.S.$272 million) for the nine month period ended 30 September 2013. This was principally due to higher commission income and other income during the nine month period ended 30 September 2014 compared to during the nine month period ended 30 September 2013. Operating income (comprising the aggregate of net funded income and non-funded income) was AED 4,104 million (U.S.$1,117 million) and operating costs (comprising personnel expenses, general and administrative expenses and depreciation of investment properties) were AED 1,489 million (U.S.$405 million) for the nine month period ended 30 September 2014, as compared to operating income of AED 3,175 million (U.S.$865 million) and operating costs of AED 1,221 million (U.S.$332 million) for the nine month period ended 30 September 2013. The increase in operating costs during the nine month period ended 30 September 2014 compared to the nine month period ended 30 September 2013 principally reflected an increase in staff expenses of 24 per cent. and an increase in general and administrative expenses of 22 per cent. DIB's return on shareholders' funds was 17.7 per cent. and its operating cost to operating income ratio was at 36.3 per cent. for the nine month period ended 30 September 2014 compared to 13.1 per cent. and 38.5 per cent., respectively, for the nine month period ended 30 September 2013.

DIB reported net profits of AED 2,060 million (U.S.$561 million) for the nine month period ended 30 September 2014, as compared to AED 1,200 million (U.S.$327 million) for the nine month period ended 30 September 2013. DIB's net funded income rose by 21 per cent. to AED 2,633 million (U.S.$717 million) for the nine month period ended 30 September 2014 from AED 2,176 million (U.S.$592 million) for the nine month period ended 30 September 2013. Reasons for the increase in net funded income were (i) an increase in income from Islamic financing and investing assets and *sukuk* due to a significant increase in Islamic financing and investing and DIB's *sukuk* portfolio during the nine month period ended 30 September 2014. The net Islamic financing and investing portfolio has increased from AED 56.1 billion (U.S.$15.3 billion) to AED 71.1 billion (U.S.$19.4 billion) and the *sukuk* portfolio has increased from AED 11.6 billion (U.S.$3.2 billion) to AED 14.9 billion (U.S.$4.1 billion) for the nine month periods ended 30 September 2013 and 30 September 2014, respectively; and, (ii) early repayment of the Wakala Deposits.

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 transactions; (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 before income tax expense for the nine month periods ended 30 September 2014 and 30 September 2013 and the financial years ended 31 December 2013, 31 December 2012 and 31 December 2011:

	30 September				31 December					
	2014		2013		2013		2012		2011	
	(AED millions)	%	*(AED millions)*	%	*(AED millions)*	%	*(AED millions)*	%	*(AED millions)*	%
Segmental Information										
Consumer banking	771	37	520	43	573	33	525	43	541	50
Corporate banking......	756	36	450	38	714	42	428	35	492	45
Real Estate Development	170	8	87	7	155	9	39	3	21	2
Treasury	432	21	326	27	480	28	482	39	440	41
Others	(52)	(2)	(180)	(15)	(200)	(12)	(248)	(20)	(410)	(38)
Total net profit before income tax expense	**2,077**	**100**	**1,203**	**100**	**1,722**	**100**	**1,226**	**100**	**1,084**	**100**

The following table sets out a breakdown of DIB's gross Islamic financing and investing assets by product type as at 30 September 2014:

	Retail		Non-Retail		Consolidated
	(AED millions)	%	*(AED millions)*	%	*(AED millions)*
Financing Assets					
Commodities murabahat	2,042	7	2,875	6	4,917
International murabahat (long term) ..	—	—	7,597	17	7,597
Vehicles murabahat	7,779	25	—	0	7,779
Real estate murabahat	1,308	4	1,964	4	3,272
Total murabahat	11,129	36	12,436	27	23,565
Istisna'a	694	2	3,622	8	4,316
Ijara	60	0	15,917	35	15,977
Home finance – Ijara	11,221	37	—	0	11,221
Islamic credit cards	470	2	—	0	470
Salam finance	8,084	26	—	0	8,084
Less: Deferred Income & Others	(1,174)	(4)	(1,261)	(3)	(2,435)
Total	**30,484**	**99**	**30,714**	**67**	**61,198**
Investing Assets					
Musharakat	8	0	4,668	10	4,676
Mudaraba...	208	1	6,206	14	6,414
Wakalat	—	0	3,834	9	3,834
Total...	**216**	**1**	**14,708**	**33**	**14,924**
Total	**30,700**	**100**	**45,422**	**100**	**76,122**

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 71,125 million (U.S.$19,367 million) as at 30 September 2014, an increase of 26.8 per cent. from AED 56,071 million (U.S.$15,268 million) as at 31 December 2013 (and AED 55,183 million (U.S.$15,026 million) as at 31 December 2012). 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 30 September 2014, 6.2 per cent. of DIB's gross Islamic financing and investing assets portfolio was located outside the UAE. DIB has implemented risk management methods to mitigate and control the risks associated with this portfolio and other market risks to which DIB is exposed (see "– *Risk Management*" below).

DIB maintains a *sukuk* 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 8 and 9 to the 30 September 2014 interim financial information and Notes 9 and 10 to the 2013 Financial Statements set out elsewhere in this Prospectus) and, in particular, 82 per cent. of the securities portfolios were concentrated in the UAE as at 30 September 2014.

The following table provides a breakdown of DIB's investment portfolio as at 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011, respectively:

	As at 30 September		**As at 31 December**					
	2014		**2013**		**2012**		**2011**	
	(AED millions)	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*
Investments in Sukuk								
Amortised cost	14,984	100	11,643	100	11,089	100	12,688	100
	14,984	**100**	**11,643**	**100**	**11,089**	**100**	**12,688**	**100**
Other Equity Investments								
Investments carried at FVTPL[1]	3	0.1	1	0.1	1	0.1	53	2.6
Investments carried at FVTOCI[2]	2,168	99.9	2,029	99.9	1,980	99.9	2,000	97.4
	2,171	**100**	**2,030**	**100**	**1,981**	**100**	**2,053**	**100**

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 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011, respectively, these ratios were as follows:

See further "*Capital adequacy*" below.

	As at 30 September	As at 31 December		
	2014	2013	2012	2011
	(AED millions, except percentages)			
Capital adequacy in accordance with Basel II Capital base	14,982	13,955	13,041	13,737
Risk weighted assets				
Credit risk	86,197	70,200	69,354	70,353
Market risk	3,976	1,805	1,910	1,175
Operational risk	6,792	4,526	3,841	3,745
Risk weighted assets	**96,965**	**76,531**	**75,105**	**75,273**
Risk asset ratio (Basel II)	**15.5%**	**18.2%**	**17.4%**	**18.2%**
Common Equity Tier 1 Ratio	15.2%	18.2%	13.9%	13.6%
Capital adequacy ratio	15.5%	18.2%	17.4%	18.2%

Funding

DIB's bank and customer deposits together totalled AED 99,798 million (U.S.$27,174 million), AED 81,691 million (U.S.$22,244 million), AED 73,394 million (U.S.$19,985 million) and AED 69,349 million (U.S.$18,883 million) as at 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011, respectively. Customer deposits amounted to AED 95,500 million (U.S.$26,004 million), AED 79,061 million (U.S.$21,528 million), AED 66,726 million (U.S.$18,169 million) and AED 64,771 million (U.S.$17,637 million) as at 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011, respectively, and represented 95.7 per cent., 96.8 per cent., 90.9 per cent. and 93.4 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 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011, respectively:

	As at 30 September		As at 31 December					
	2014		2013		2012		2011	
	(AED millions)	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*
Customer deposits	95,500	74.3	79,061	69.8	66,726	67.7	64,771	69.0
Due to banks	4,298	3.3	2,630	2.3	6,668	6.8	4,578	4.9
Sukuk financing instruments	2,847	2.2	2,808	2.5	4,674	4.7	4,174	4.4
Medium term wakala	—	—	—	—	3,753	3.8	3,753	4.0
Other liabilities and zakat	8,559	6.7	12,447	11.0	5,097	5.2	5,387	5.7
Equity	17,275	13.5	16,342	14.4	11,693	11.8	11,282	12.0
Total funding	**128,479**	**100**	**113,288**	**100**	**98,611**	**100**	**93,945**	**100**

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

Strategy

2014-2016 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 2014 to 2016 (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 itself from the effects of the crisis. In particular, DIB decided 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 to 2013 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 gross 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 3.8 per cent. of DIB's portfolio of gross 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 4.9 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 6.4 per cent. of DIB's portfolio of gross Islamic financing and investing assets as at that date), to AED 3.7 billion (U.S.$1.0 billion) as at 31 December 2012 (equating to 6.3 per cent. of DIB's portfolio of gross Islamic financing and investing assets as at that date), to AED 4.6 billion (U.S.$1.3 billion) as at 31 December 2013 (equating to 7.5 per cent. of DIB's portfolio of gross Islamic financing and investing assets as at that date) and to AED 5.0 billion (U.S.$1.4 billion) as at 30 September 2014 (equating to 6.6 per cent. of DIB's portfolio of gross Islamic financing and investing assets as at that date).

Following the appointment of a new CEO in mid-2013, who previously served as Deputy CEO, DIB embarked on a new "growth" strategy aimed at redefining the way DIB operates its business, positioning the bank as a global leader in the world of Islamic finance. DIB's plan includes the following initiatives and goals:

- DIB's principal plan for 2014-2016 is to grow its core businesses of consumer, corporate, treasury, and commercial real estate across all Emirates. In addition, DIB is focused on playing a part in promoting the Islamic finance sector as well as the growth agenda of Dubai and the UAE.

- DIB also intends to put the customer at the centre of its business strategy. By putting the customer first, it aims to strengthen its services, change the customer experience and improve revenues. "Customer First" is a key pillar of DIB's strategic growth theme and is a bank-wide initiative that has been launched to develop a culture of service excellence and enable DIB to become best-in-class service provider in the banking sector. In addition, DIB will aim to provide a service experience through an entirely paperless environment (the SMART BANK service). As of the date of this Prospectus, all of DIB's branches have been equipped to provide this service. DIB will continue to open new branches and acquire new customers and is targeting a 100 branch network over the next few years.

- DIB is focused on enhancing its understanding of its growing customer base through the use of a customer relationship management system which has helped establish a customer segmentation strategy allowing DIB to deepen its relationships further and improve cross-selling whilst offering focused need-based solutions. DIB will also continue to engage with the stakeholders and the market promoting a culture of transparency and openness.

- Further, DIB intends to expand its geographic footprint through acquisitions, establishing subsidiaries and branches, pursuing strategic partnerships and/or co-operation agreements with local partners in Asia, Africa and the Gulf.

DIB's strategy is continually monitored and reviewed by its management after which it is formally approved by DIB's Board of Directors. 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.

Competition and Competitive Advantages

As indicated above, aside from being the largest Islamic bank in the UAE, as at 30 September 2014, DIB ranked fifth by total assets, total financing, customer deposits and net profits 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 macroeconomic 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; (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 reflects the Retail & Business Banking business line); (b) corporate banking (which reflects the Corporate Banking and Contracting Finance business lines); (c) real estate development (which reflects real estate investment by subsidiaries); (d) treasury (which reflects the Treasury business line); and (e) others (comprising DIB's investments and 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 nine month periods ended 30 September 2014 and 30 September 2013 along with three years ended 31 December 2013, 31 December 2012 and 31 December 2011, respectively:

	Retail & Business Banking					Corporate Banking				
	30 September		31 December			30 September		31 December		
	2014	2013	2013	2012	2011	2014	2013	2013	2012	2011
					(AED millions)					
Net operating revenue....	2,006	1,625	2,067	1,898	1,836	1,122	980	1,393	1,265	1,420
Operating expenses	(1042)	(856)	(1,178)	(1,087)	(1,047)	(158)	(127)	(204)	(150)	(140)
Net operating income	964	769	889	811	789	964	853	1,189	1,115	1,280
Impairment charge for the period.................	(193)	(249)	(316)	(286)	(248)	(208)	(403)	(475)	(687)	(788)
Net profit for the period before income tax expenses	771	520	573	525	541	756	450	714	428	492

	Real Estate Development					Treasury				
	30 September		31 December			30 September		31 December		
	2014	2013	2013	2012	2011	2014	2013	2013	2012	2011
					(AED millions)					
Net operating revenue....	410	211	224	208	284	455	343	500	504	462
Operating expenses	(111)	(95)	(119)	(115)	(112)	(23)	(17)	(20)	(22)	(22)
Net operating income	299	116	105	93	172	432	326	480	482	440
Impairment charge for the period.................	(129)	(29)	50	(54)	(151)	—	—	—	—	—
Net profit for the period before income tax expenses	170	87	155	39	21	432	326	480	482	440

	Others					Total				
	30 September		31 December			30 September		31 December		
	2014	2013	2013	2012	2011	2014	2013	2013	2012	2011
					(AED millions)					
Net operating revenue....	111	17	50	64	(96)	4,104	3,176	4,234	3,939	3,906
Operating expenses	(155)	(127)	(167)	(247)	(263)	(1,489)	(1,222)	(1,688)	(1,620)	(1,584)
Net operating income	(44)	(110)	(117)	(183)	(359)	2,615	1,954	2,546	2,319	2,322
Impairment charge for the period.................	(8)	(70)	(83)	(65)	(51)	(538)	(751)	(824)	(1,093)	(1,238)
Net profit for the period before income tax expenses	(52)	(180)	(200)	(248)	(410)	2,077	1,203	1,722	1,226	1,084
Income tax expense........						(17)	(3)	(4)	(13)	(7)
Net profit for the period						2.060	1,200	1,718	1,213	1,077

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 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011:

	Retail and Business Banking				Corporate Banking			
	30 September	31 December			30 September	31 December		
	2014	2013	2012	2011	2014	2013	2012	2011
Segment assets	30,789	26,184	25,179	23,917	42,711	31,712	31,330	28,511
Segment liabilities	51,249	50,019	47,777	46,517	48,035	38,100	20,041	19,402
	Real Estate Development				**Treasury**			
	30 September	31 December			30 September	31 December		
	2014	2013	2012	2011	2014	2013	2012	2011
Segment assets	4,588	4,968	5,431	5,572	18,218	21,075	12,512	13,940
Segment liabilities	1,532	1,897	2,189	2,425	6,932	5,088	11,510	8,132
	Other				**Total**			
	30 September	31 December			30 September	31 December		
	2014	2013	2012	2011	2014	2013	2012	2011
Segment assets	32,173	29,349	24,159	22,005	128,479	113,288	98,611	93,945
Segment liabilities	3,456	1,842	5,401	6,186	111,204	96,946	86,918	82,662

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 88 branches spread across all of the Emirates, more than 500 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*

  In 2014, DIB launched new "Prime Cards" based on the principle of *Salam*. Prime Cards mark a significant advancement from DIB's current range of cards, which work on a fixed fee model. The new Prime Cards allow the customer to pay based on his or her actual usage of the card (rather than pay on a fixed fee model). This Islamic finance innovation places DIB in a position that allows it to compete with conventional banks that control more than 80 per cent. of the cards market 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 comprises freehold and non-freehold residential mortgages by DIB and its subsidiary, Tamweel. DIB is one of the leading providers of retail real estate finance in the UAE.

- *SME Business Solutions*

  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. The solutions offered are based on a combination of *Murabaha* and *Salam*-based structures.

- *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. Along with structures developed in-house, 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.

- *Additional Retail Segments*

  Following an extensive customer relationship management exercise, the RBB identified key additional business segments (broadly based on customer deposits) named *Mumayaz* (effectively the upper mass segment), the mass segment and the lower mass segment. Specific offerings have been developed to cater to these segments leading to previously untapped profitability opportunities.

Other Delivery Channels

In addition to its 88 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 online interface to its internet banking service in order to allow all of its online transactions to be conducted in the Arabic language. In August 2013, DIB launched the *Al Islami* Business Mobile Banking offering exclusively for its business customers. All customers enrolled for *Al Islami* Business Online will be able to carry out transactions through their mobile phone such as viewing statements and making transfers and payments.

- *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 30 September 2014, see "– *Overall Performance*" above.

Corporate Banking

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 ("**CB**") comprises the following teams (which are organised on both a geographical and product-specific basis):

- private sector (Dubai, Jebel Ali and Northern Emirates), which supports DIB's corporate clients based in and around Dubai and the Northern Emirates;

- public sector (Dubai region and Northern Emirates), which supports DIB's public sector clients based in and around Dubai and the Northern Emirates;

- GCC, Structured Finance ("**SF**") and Financial Institutions ("**FIs**"), which comprises:

  - GCC and SF

    DIB's SF unit principally deals with all of DIB's cross-border activities relating to project finance, syndicated lending, structured trade finance and inventory financing. 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); 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 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 clients. The products offered by the CB team 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 Group are:

- Financial Products and Solutions, which include *Murabaha*, *Mudaraba* and *Musharaka* products tailored to the needs of DIB'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 online 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 30 September 2014, see "– *Overall Performance*" above.

The CBG manages around 880 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.

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's Investment Banking business group is primarily responsible for management of DIB's proprietary investment portfolios, strategic stakes and international operations and expansion.

DIB's Investment Banking business group provides advisory and related services to DIB's corporate clients in the UAE and in the rest of the world. The Investment Banking team comprises professionals with previous experience from international financial institutions.

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 and the RBB and also engages in Islamic derivatives business. Its principal customers are DIB's corporate customers, financial institutions, high net worth individuals, SME companies and similar businesses. 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 at 30 September 2014, DIB had 34 consolidated subsidiaries (including 18 special purpose vehicles (SPVs), details of which are set out in Note 24 of the interim financial information for the nine month period ended 30 September 2014 and Note 16 of the 2013 Financial Statements. DIB had 11 significant associates and five joint ventures, details of which are set out in Note 11 of the 2013 Financial Statements and Note 10 of the September 2014 Unaudited Financial Information. Of these, DIB considers the following to be its key subsidiaries and associates in terms of revenue and future growth potential:

Tamweel P.J.S.C. (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 were delisted from the DFM during September 2014.

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 the Tender Offer to the minority shareholders in Tamweel to acquire their shares in consideration of New Shares in DIB. Under the Tender Offer, DIB offered 10 New Shares for every 18 shares in Tamweel held by a Tamweel minority shareholder. The Tender Offer was widely accepted by most of the Tamweel shareholders and this increased DIB's shareholding from 58.3 per cent. to 86.5 per cent..

At an extraordinary general meeting held on 7 July 2013, Tamweel's shareholders approved the company's conversion to a Private Joint Stock Company and approved the delisting of its shares from the DFM, subject to receipt of relevant regulatory approval. On 26 September 2013, the Securities and Commodities Authority approved the suspension of trading in Tamweel's shares on the DFM with effect from 1 October 2013. With effect from 27 August 2014, Tamweel was registered as a Private Joint Stock Company and its shares were delisted from the DFM.

As at 30 September 2014, Tamweel's authorised, issued and paid up share capital was AED 1.0 billion (U.S.$0.3 billion). As at 30 September 2014, Tamweel had total assets of AED 7.1 billion (U.S.$1.9 billion) compared to AED 8.4 billion (U.S.$2.3 billion) as at 31 December 2013, AED 10.9 billion (U.S.$3.0 billion) as at 31 December 2012 and AED 10.0 billion (U.S.$2.7 billion) as at 31 December 2011. As at 30 September 2014, Tamweel had total equity of AED 2.4 billion (U.S.$0.6 billion) compared to AED 2.4 billion (U.S.$0.6 billion) as at 31 December 2013, AED 2.3 billion (U.S.$0.6 billion) as at 31 December 2012 and AED 2.3 billion (U.S.$0.6 billion) as at 31 December 2011.

For the nine month period ended 30 September 2014, Tamweel's net profit was AED 77.6 million (U.S.$21.1 million) compared to AED 74.1 million (U.S.$20.2 million) during the nine month period ended 30 September 2013. 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 September 2013, DIB settled all of Tamweel's *wakala* finance received from banks, amounting to AED 3.8 billion (U.S.$1.0 billion), by providing a short-term *wakala* facility of an equivalent amount to Tamweel.

DIB Pakistan (Pakistan)

DIB Pakistan was incorporated as a wholly-owned subsidiary of DIB in 2006. It currently has over 170 branches in 75 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 had share capital of Pakistani Rupee 10,158 million (U.S.$99.1 million) as at 30 September 2014. As at 30 September 2014, DIB Pakistan's net assets were Pakistani Rupee 10,705.6 million (U.S.$104.5 million) compared to Pakistani Rupee 6,982.6 million (U.S.$66.1 million) as at 31 December 2013. For the nine month period ended 30 September 2014, DIB Pakistan's profit before taxation was Pakistani Rupee 864.8 million (U.S.$8.5 million) compared to its profit before taxation of Pakistani Rupee 144.4 million (U.S.$1.4 million) for the year ended 30 September 2013. For the purposes of this paragraph, Pakistani Rupees have been converted into U.S. dollars based on the closing rates on given dates.

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 (which is consolidated with the Group's financial statements). As at 30 September 2014, Deyaar Development's total assets were AED 6.1 billion (U.S.$1.7 billion) compared to AED 6.3 billion (U.S.$1.7 billion) as at 31 December 2013. For the year ended 30 September 2014, Deyaar Development's profit before taxation was AED 193.0 million (U.S.$52.6 million) compared to AED 87.1 million (U.S.$23.7 million) for the year ended 30 September 2013. Deyaar Development's authorised and paid up capital was AED 5.9 billion (U.S.$1.6 billion) as at 30 September 2014.

Dar Al Sharia Legal & Financial Consultancy LLC (UAE)

Dar Al Sharia was incorporated as a subsidiary of DIB in 2007 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 30 September 2014, DIB owned 60 per cent. of the issued share capital of Dar Al Sharia.

Bank Panin Syariah (Indonesia)

In May 2014, DIB acquired a 24.9 per cent. stake in Bank Panin Syariah.

Following the completion of this phase 1 of the acquisition, DIB has initiated the formal regulatory approval process to obtain "Significant Shareholder Status" from the OJK. Upon being granted this approval by the OJK, DIB will complete phase 2 of the share purchase plan to increase its stake in Bank Panin Syariah to up to 40 per cent. This is currently expected to be completed by the end of the first quarter of 2015.

Bank Panin Syariah offers Islamic banking services in Indonesia. DIB intends to cooperate with Bank Panin Syariah in order to promote the growth of *Shari'a* banking in Indonesia. To achieve this, DIB will provide its well-established expertise in Islamic banking operations to Bank Panin Syariah, which will be bolstered by Bank Panin Syariah's knowledge of the local market.

Bank Panin Syariah is currently controlled by PT Bank Panin and currently operates through a network of 10 branches (with its head office located at Panin Life Center Building, Jakarta). Bank Panin Syariah is listed on the Indonesia Stock Exchange.

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 risks, 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. As at 30 September 2014, the breakdown of DIB's financing portfolio by sector was 40 per cent. consumer, 36 per cent. corporate and 24 per cent. real estate compared to 43 per cent. consumer, 31 per cent. corporate and 26 per cent. real estate, respectively, as at 31 December 2013.

The following table shows the concentration of DIB's gross Islamic financing and investing assets by industry sector as at 31 December 2013, 31 December 2012 and 31 December 2011:

	31 December					
	2013		**2012**		**2011**	
	(AED millions)	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*
Portfolio Concentration Gross Islamic Financing and Investing Assets – by Industry Sector:						
Financial institutions	1,958	3.2	1,349	2.3	1,631	3.0
Real estate	15,950	26.3	17,269	29.3	18,396	33.7
Trade	4,739	7.8	2,697	4.6	1,827	3.3
Government	4,719	7.8	4,081	6.9	2,665	4.9
Manufacturing and services	7,073	11.7	8,272	14.1	5,735	10.5
Consumer home finance	11,702	19.3	12,827	21.8	12,556	23.0
Consumer financing	14,503	23.9	12,387	21.0	11,816	21.6
Total	**60,644**	**100**	**58,882**	**100**	**54,626**	**100**

	30 September		**31 December**					
	2014		**2013**		**2012**		**2011**	
	(AED millions)	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*	*(AED millions)*	*%*
Portfolio Concentration Gross Islamic Financing and Investing Assets – by geographical areas:								
Within UAE	71,382	93.8	58,036	95.7	56,700	96.3	52,609	96.3
Outside UAE	4,740	6.2	2,608	4.3	2,182	3.7	2,017	3.7
Total	**76,122**	**100**	**60,644**	**100**	**58,882**	**100**	**54,626**	**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)			*(%)*	
30 September 2014	76,122	3,306	79,428	6,515	4,997	8.2	76.7
31 December 2013	60,644	3,673	64,317	7,142	4,573	11.1	64.0
31 December 2012	58,882	3,673	62,555	8,090	3,699	12.9	45.7
31 December 2011	54,626	3,673	58,299	8,078	3,509	13.9	43.4

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

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 Central Bank published a set of rules making it mandatory for banks and financial institutions to make provisions for their impaired loans on a quarterly basis. The 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. DIB is building provisions and reserves for general provisions accordingly and is ahead of the given Central Bank requirement.

The following table sets out the movements in DIB's provision for impairment of its financing and investing assets for the nine month period ended 30 September 2014 and years ended 31 December 2013, 31 December 2012 and 31 December 2011:

	30 September	31 December		
	2014	2013	2012	2011
	(AED millions)			
Balance at the beginning of the year	4,573	3,699	3,509	2,535
Charge for the year	948	1,153	1,163	1,517
Release to profit or loss	(544)	(301)	(279)	(540)
Write-(offs)/back during the year	4	7	(691)	(2)
Other	16	15	(3)	(1)
Balance at the end of the year	4,997	4,573	3,699	3,509
Gross amount of Islamic financing and investing assets, individually determined to be impaired	5,401	5,654	6,118	6,808

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 2013, 31 December 2012 and 31 December 2011:

	As at 31 December 2013					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(AED thousands)					
Assets:						
Cash and balances with central banks	2,930,618	9,705,806	9,967,747	108,793	—	22,712,964
Due from banks and financial institutions	8,547,845	695,820	362,503	—	—	9,606,168
Islamic financing and investing assets, net	3,198,033	4,563,855	8,879,252	26,793,616	12,635,882	56,070,638
Investment in Islamic Sukuk	17,866	20,105	1,511,341	8,400,044	1,693,197	11,642,553
Other investments	—	—	1,066,155	963,502	—	2,029,657
Investments in associates	—	—	—	—	1,877,829	1,877,829
Properties held for sale	—	—	—	1,840,973	—	1,840,973
Investment properties	—	—	—	—	2,013,314	2,013,314
Receivables and other assets	41,457	398,052	1,034,312	3,483,168	385	4,957,374
Property, plant and equipment	—	—	—	228,173	308,795	536,968
Total assets	**14,735,819**	**15,383,638**	**22,821,310**	**41,818,269**	**18,529,402**	**113,288,438**
Liabilities:						
Customers' deposits	14,270,542	11,096,110	32,670,132	20,952,861	70,896	79,060,541
Due to banks and other financial institutions	1,498,918	558,018	84,487	488,583	—	2,630,006
Sukuk financing instruments	—	—	—	2,807,603	—	2,807,603
Medium term wakala finance	—	—	—	—	—	—
Other liabilities	7,430,842	1,422,053	2,953,928	475,688	—	12,282,511
Accrued zakat	—	—	165,588	—	—	165,588
Equity	—	—	593,063	(563,850)	16,312,976	16,342,189
Total liabilities and equity	**23,200,302**	**13,076,181**	**36,467,198**	**24,160,885**	**16,383,872**	**113,288,438**
Net maturities gap	**(8,464,483)**	**2,307,457**	**(13,645,888)**	**17,657,384**	**2,145,530**	**—**

	As at 31 December 2012					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(AED thousands)					
Assets:						
Cash and balances with central banks	3,061,994	4,096,076	8,218,972	96,957	—	15,473,999
Due from banks and financial institutions	2,350,950	922,109	20,000	—	—	3,293,059
Islamic financing and investing assets, net	2,867,061	4,907,169	8,964,298	24,374,219	14,069,941	55,182,688
Investment in Islamic Sukuk	23,853	22,104	2,187,964	7,998,864	855,877	11,088,662
Other investments	—	—	611,970	1,369,062	—	1,981,032
Investments in associates	—	—	—	—	2,029,953	2,029,953
Properties held for sale	—	—	—	1,997,374	—	1,997,374
Investment properties	—	—	—	—	2,083,010	2,083,010
Receivables and other assets	115,913	53,556	3,917,457	803,659	1,373	4,891,958
Property, plant and equipment	—	—	—	256,430	333,047	589,477
Total assets	**8,419,771**	**10,001,014**	**23,920,661**	**36,896,565**	**19,373,201**	**98,611,212**
Liabilities:						
Customers' deposits	6,831,035	9,218,177	28,266,824	22,330,684	78,803	66,725,523
Due to banks and other financial institutions	586,651	173,229	3,504,515	2,403,605	—	6,668,000
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	1,201,408	1,129,317	1,961,594	641,679	702	4,934,700
Accrued zakat	—	—	163,572	—	—	163,572
Equity	—	—	569,558	(820,131)	11,943,487	11,692,914
Total liabilities and equity	**9,254,054**	**10,520,723**	**35,566,063**	**31,247,380**	**12,022,992**	**98,611,212**
Net maturities gap	**(834,283)**	**(519,709)**	**(11,645,402)**	**5,469,185**	**7,350,209**	**—**

	As at 31 December 2011					
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(AED thousands)					
Assets:						
Cash and balances with central banks	2,354,355	5,081,320	5,517,004	—	—	12,952,679
Due from banks and financial institutions	2,529,596	622,463	—	—	—	3,152,059
Islamic financing and investing assets	4,205,901	3,201,254	8,847,308	21,575,623	13,287,532	51,117,618
Investment in Islamic Sukuk	13	1,951	140,070	11,260,998	1,285,079	12,688,111
Other investments	—	—	586,761	1,466,372	—	2,053,133
Investments in associates	—	—	—	—	1,198,928	1,198,928
Properties held for sale	—	—	—	2,558,655	—	2,558,655
Investment properties	—	—	—	—	1,918,529	1,918,529
Receivables and other assets	791,417	88,028	1,287,912	3,482,667	35,844	5,685,868
Property, plant and equipment	9,595	18,642	82,157	142,375	366,351	619,120
Total assets	**9,890,877**	**9,013,658**	**16,461,212**	**40,486,690**	**18,092,263**	**93,944,700**
Liabilities:						
Customers' deposits	8,359,394	6,622,706	28,294,049	21,472,142	23,107	64,771,398
Due to banks and other financial institutions	451,096	125,275	1,327,135	2,674,475	—	4,577,981
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	2,142,243	1,518,390	6,223	5,265,381
Accrued zakat	—	—	121,076	—	—	121,076
Equity	—	—	379,705	(831,849)	11,734,482	11,282,338
Total liabilities and equity	**10,235,124**	**9,278,946**	**32,264,208**	**30,402,610**	**11,763,812**	**93,944,700**
Net maturities gap	**(344,247)**	**(265,288)**	**(15,802,996)**	**10,084,080**	**6,328,451**	**—**

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 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011:

	30 September	31 December		
	2014	2013	2012	2011
		%		
Liquidity ratios:				
Liquid assets[(1)]/total assets	24.2	30.3	21.0	19.3
Customer deposits/total deposits[(2)]	95.7	96.8	90.9	93.4
Net financing and investment assets/customer deposits	74.5	70.9	82.7	78.9
Net financing and investment assets/total assets	55.4	49.5	56.0	54.4

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 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011:

	30 September	31 December		
	2014	2013	2012	2011
		(AED millions)		
Customers' deposits:				
Current accounts	23,747	20,606	17,803	17,706
Saving accounts	14,009	12,927	11,265	10,849
Investment deposits	57,214	45,126	37,311	35,831
Margins (LC and guarantee margins)	324	227	169	193
Profit equalisation reserve and depositors' share of profit payable	206	175	178	192
Total	**95,500**	**79,061**	**66,726**	**64,771**

The following table provides a breakdown of DIB's contingencies and commitments as at 30 September 2014, 31 December 2013, 31 December 2012 and 31 December 2011:

	30 September	31 December		
	2014	2013	2012	2011
	(AED millions)			
Contingent liabilities:				
Letters of guarantees	8,577	6,986	7,828	7,511
Letters of credit	2,539	3,313	1,962	2,082
Total	**11,116**	**10,299**	**9,790**	**9,593**

	30 September	31 December		
	2014	2013	2012	2011
	(AED millions)			
Commitments:				
Capital expenditure commitments	724	904	1,083	316
Irrevocable undrawn facilities and commitments	16,797	13,850	10,393	8,757
Total	**17,521**	**14,754**	**11,476**	**9,073**
Total	**28,637**	**25,053**	**21,266**	**18,666**

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 2013, 31 December 2012 and 31 December 2011, please refer to Note 51.(c) to the 2013 Financial Statements and Note 52.3.4 to the 2012 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 by DIB

U.S.$2,500 million Trust Certificate Issuance Programme

In May 2012, DIB, through a *Shari'a*-compliant financing arrangement, established a U.S.$2,500 million Trust Certificate Issuance Programme (the "**DIB Sukuk Programme**"). As part of the DIB Sukuk Programme, the first series of the trust certificates amounting to U.S.$500 million (AED 1,836.5 million) was issued and listed on the 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, *Shari'a*-compliant authorised investments and any replaced assets of DIB to DIB Sukuk Limited, Cayman Islands (the "**DIB Sukuk Programme Issuer**"). These assets are under the control of DIB and shall continue to be serviced by DIB.

The DIB Sukuk Programme Issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, DIB has undertaken to buy these assets at the exercise price from the DIB Sukuk Programme Issuer.

The first series of trust certificates issued under the DIB Sukuk Programme matures in May 2017 and, at the time of issuance, were expected to pay a semi-annual profit to investors based on 6 months LIBOR plus 3.65 per cent. per annum.

Tier 1 issuance

In March 2013, DIB announced the successful pricing of a U.S.$1 billion Tier 1 Capital-eligible issuance, with a perpetual (non-call 6) maturity. The issuance carries a profit rate of 6.25 per cent.. See "*Shareholders and Capital Structure – Tier 1 Sukuk*".

Sukuk issuance by subsidiaries of DIB

Shari'a-compliant Trust Certificates of U.S.$300 million due 2017

In 2012, Tamweel (a subsidiary of DIB) issued *Shari'a*-compliant trust certificates of US$300 million (AED 1,101.9 million) at an expected profit rate of 5.15 per cent. per annum. Realised profit on these certificates is payable semi-annually in arrears. The certificates are listed on the Irish Stock Exchange, Ireland and mature in 2017.

Apart from the aforementioned trust certificates, Tamweel had also completed two other issuances of certificates, each of which were repaid on maturity:

- In 2008, a subsidiary of DIB issued *Shari'a*-compliant, convertible sukuk for a total value of U.S.$300 million (AED 1,101.9 million) at an expected profit rate of 4.31 per cent. per annum. Realised profit on these sukuk was paid quarterly in arrear. The sukuk were listed on NASDAQ Dubai, UAE and were redeemed fully in cash on maturity in January 2013.

- In 2008, further *Shari'a*-compliant, non-convertible sukuk were issued in the form of trust certificates for the total value of AED 1,100 million at an expected profit rate of 3 months EIBOR plus 225 basis points per annum. Realised profit on these sukuk was paid quarterly in arrear. These sukuk were listed on NASDAQ Dubai, UAE and were redeemed fully in cash on maturity in July 2013.

Medium term wakala finance

During 2008, DIB received AED 3.75 billion of *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 were used for investments with a tenor of seven years and were to mature in December 2016. Profit on the Wakala Deposits was paid every three months. During the year ended 31 December 2013, DIB repaid the Wakala Deposits in full before their stipulated maturity (December 2016) after obtaining the necessary regulatory and government approvals.

In the event of a liquidity crisis, DIB has a large portfolio of rated Sukuk that could be used 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 database, 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 backup 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.

Subsequently, 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 by DIB in late 2012). Due to the plaintiffs' request for additional documents and certain co-defendants seeking extensions, the document discovery phase was extended and is expected to conclude by the end of the first quarter of 2015. This may, however, be further extended at the court's discretion. The next step is for the parties to identify and take testimony of relevant witnesses in depositions under oath.

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 15.2 per cent. at 30 September 2014, 18.2 per cent. at 31 December 2013, 13.9 per cent. at 31 December 2012 and 13.6 per cent. at 31 December 2011. DIB's total capital adequacy ratio was 15.5 per cent. at 30 September 2014, 18.2 per cent. at 31 December 2013, 17.4 per cent. at 31 December 2012 and 18.2 per cent. at 31 December 2011.

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 day 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 ("USRR")**

  The USRR 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.

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 30 September 2014 and for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 in respect of transactions entered into by DIB with related parties:

	30 September	**31 December**		
	2014	**2013**	**2012**	**2011**
		(AED millions)		
Islamic financing and investing assets	1,610	1,649	1,589	647
Investment in Islamic sukuk measured at amortised cost	744	—	—	—
Customer deposits	2,188	3,078	1,976	2,808
Contingent liabilities	—	14	14	—

The tables below set out the income statement for the periods ended 30 September 2014 and 30 September 2013 along with income statements for the years ended 31 December 2013, 31 December 2012 and 31 December 2011 in respect of transactions entered into by DIB with related parties:

	Period ended 30 September		**Year ended 31 December**		
	2014	**2013**	**2013**	**2012**	**2011**
			(AED millions)		
Income Statement Highlights					
Income from Islamic financing and investing assets	44	35	55	54	40
Depositors' share of profits	24	53	74	57	106

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. In 2013, DIB completed a significant upgrade of its infrastructure following a detailed evaluation process that took place in 2007.

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 DIB's 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 onsite 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.

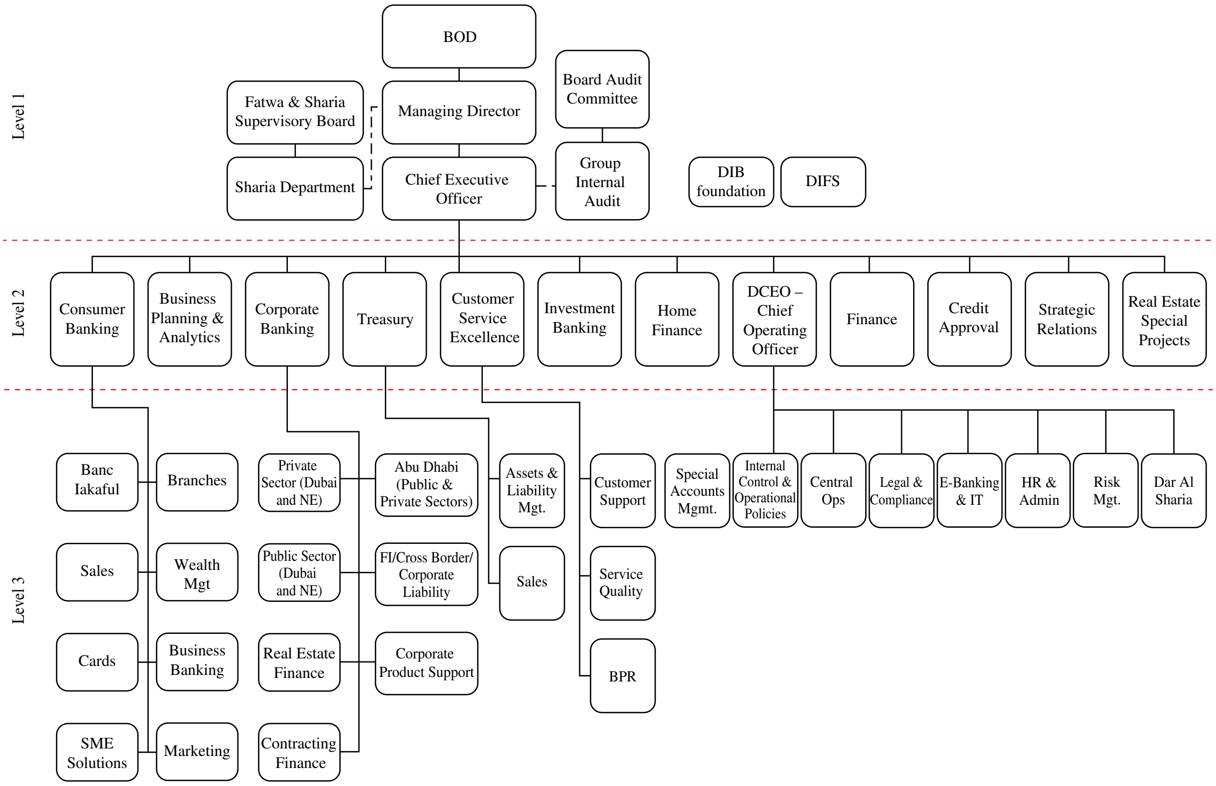
Accordingly, DIB believes that all critical systems and processes within DIB are protected by its BCP and DR strategy and planning exercise (which includes both local and international linked systems and processes as well as regulatory requirements). DIB refines its BCP and DR strategy on an ongoing 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 UAE, 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. Mohammad Ibrahim Abdulrahman Mohammad Al Shaibani	Chairman
Mr. Hamad Abdulla Rashed Obaid Al Shamsi	Director
Mr. Abdulla Ali Obaid Butti Al Hamli	Director
Mr. Ahmad Mohammad Saeed Bin Humaidan Alfalasi	Director
Mr. Abdulaziz Ahmed Rahma Mohamed Al Muhairi	Director
Mr. Abdulla Hamad Rahma Al Shamsi	Director
H.E. Hamad Mubarak Mohd Buamim	Director
Mr. Yahya Saeed Ahmad Nasser Lootah	Director
Mr. Adan Abdulla Mohamed	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 nonexecutive director of DIB.

Detailed below is brief biographical information on the members of DIB's Board of Directors.

H.E. Mohammad Ibrahim Abdulrahman Mohammad 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.

Mr. Hamad Abdulla Rashed Obaid 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. Al Hashimi holds a degree in Architecture from the Fine Arts University, Egypt.

Mr. Abdulla Ali Obaid Butti Al Hamli

Mr. Al Hamli served as Chief Executive Officer of DIB from 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 was appointed as Managing Director of DIB in mid-2013.

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. Ahmad Mohammad Saeed Bin Humaidan Alfalasi

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. Abdulaziz Ahmed Rahma Mohamed 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 Bosna 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.

Mr. Abdulla Hamad Rahma Alshamsi

Mr. Alshamsi has served as the Chairman of Dubai Properties Group since May 2012 and has also been a Member of the Board of Directors for Emirates Integrated Telecommunications Co. since March 2007. He is also the current General Manager for United Arab Shipping Agencies Co. as well as the Vice President for Dubai Shipping Agents Association.

Previously, Mr. Alshamsi served as the Chairman for Middle East Container Repair until 2013 and was a founding member and treasurer for the UAE Tennis Association until 2010.

Mr. Alshamsi obtained a Bachelor of Science degree, Business and Public Administration with a major in Finance and Economics from New York University in 1981.

H.E. Hamad Mubarak Mohd Buamim

Mr. Buamim has been the President and CEO of Dubai Chamber of Commerce and Industry since November 2006. He also serves as the Deputy Chairman of the World Chambers Federation – ICC in Paris. Mr. Buamim is a member of the Board of Directors of the UAE Central Bank, a Board Member of Dubai World, Chairman of National General Insurance and a Board Member of Union Properties. Previously, Mr. Buamim served as Chairman of Emirates Financial Services, Chairman of Emirates NBD Capital and a Board Member of Emirates NBD Bank and Network International.

Educated in the USA, Mr. Buamim graduated with Honours (*Magna Cum Laude*) from the University of Southern California, Los Angeles in 1996 with a Bachelor of Science in Electrical Engineering. In 2002, he obtained an MBA with honours in Finance from the University of Missouri, Kansas City.

Mr. Yahya Saeed Ahmad Nasser 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.

Mr. Adan Abdulla Mohamed

Mr. Mohamed currently serves as a cabinet secretary in the Ministry of Industrialization & Enterprise Development in the Republic of Kenya. Previously he served as the Chief Administrative Officer for Barclays Africa in 2013 and was also the Regional Managing Director responsible for four Barclays businesses in Africa from 2008 to 2013. Mr. Mohamed was also a Senior Consultant for Price Waterhouse Management Consulting in Nigeria from 1994 to 1996.

Mr. Mohamed holds a first class honours in Accounting.

Key Senior Management

The following table sets out the names of the current senior management of DIB:

Name	Position
Mr. Abdulla Obaid Butti Ali Al Hamli	Managing Director
Dr. Adnan Chilwan	Chief Executive Officer
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 Credit Officer
Mr. Anil Kumar Parimoo	Chief Risk Officer
Mr. Salman Liaquat..	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 Obaid Butti Al Hamli

Please see biographical information provided above for Mr. Al Hamli ("*—Board of Directors*").

Dr. Adnan Chilwan

Dr. Chilwan currently serves as the Chief Executive Officer of DIB.

Dr. Chilwan has an extensive career spanning nearly two decades with reputed conventional and Islamic banks in the region including DIB, Dubai Bank, Commercial Bank of Qatar, Mashreq Bank, Abu Dhabi Islamic Bank and HSBC. Dr. Chilwan represents DIB on the boards of various strategic investments, subsidiaries and associates. He is currently a member of the board of each of Tamweel P.J.S.C., DIB Capital, Deyaar P.J.S.C., Liquidity Management Centre Bahrain and Dar Al Sharia.

Dr. Chilwan was recently awarded the "Banking CEO of the Year" at the Indian CEO Awards 2014 ceremony in Dubai. He has also been the recipient of the Official Scarf Golden Medallion of "Wise Leadership" during the Tatweej-Arab Business & Finance Leaders and Leading Islamic Banks Grand Finale Ceremony and has further been acknowledged by The Banker, Financial Times London, as one of the "movers and shakers in the Middle East Banking Industry" in 2013. In 2014, he was recognised by Forbes in their list of top Indian leaders in the Arab world.

Dr. Chilwan has a PhD and an MBA in Marketing. He is a Certified Islamic Banker (CeIB), a post graduate in Islamic Banking and Insurance and an Associate Fellow Member in the 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 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 of banking experience with both conventional and Islamic banks. Before joining DIB, Mr. Ali was Vice President of the Commercial Banking Group at Mashreq Bank (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 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 Credit Officer of DIB since January 2015. Before that he was the Chief Risk Officer of DIB since June 2010 and before that he headed DIB's Credit Approval team and was responsible for corporate and institutional credit. Mr. Bhujwala has over 30 years 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. Anil Kumar Parimoo

Mr. Parimoo currently serves as the Chief Risk Officer of DIB with overall responsibility for enterprise risk management for DIB. He joined DIB in January 2015.

Mr. Parimoo has 24 years of experience in the banking sector having started his career with the State Bank of India. He has also worked with ABN AMRO Bank, Bank Danamon in Indonesia and more recently with Techcomban in Vietnam as its Group Chief Risk Officer responsible for managing enterprise-wide risks of the bank and its subsidiaries.

Mr. Parimoo has a degree in Science from the University of Kashmir, India. He is a certified associate from the Indian Institute of Bankers and also has risk management certification from the Global Association of Risk Professionals.

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 Head of Finance at DIB since September 2012. Mr. Salman has over 25 years 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.

Fatwa and Sharia Supervisory Board

DIB's *Shari'a* Board comprises scholars of high repute with extensive experience of and exposure to law, economics and banking systems in various jurisdictions. The *Shari'a* Board is appointed by DIB's shareholders at a general assembly meeting and its responsibilities include supervising the development of new and innovative *Shari'a*-compliant products, issuing Fatwas (*Shari'a* edicts) on any matter proposed to it by business units of DIB through Dar Al Sharia, ensuring through internal *Shari'a* auditors that the transactions of DIB are carried out in compliance with the Fatwas issued by the *Shari'a* Board, and providing guidance on any matter referred to it by DIB's management. The *Shari'a* Board is supported by the *Shari'a* Executive Committee (comprised of the Chairman of the *Shari'a* Board and one other member of the *Shari'a* Board). The *Shari'a* Executive Committee has been mandated to provide *Shari'a* approvals for DIB's new products and financing and investment transactions on behalf of the full *Shari'a* Board. The *Shari'a* Executive Committee meets on a weekly basis (or earlier in case of urgent matters) to provide timely advice or approvals. All such matters are subsequently ratified by the full *Shari'a* Board in its periodical meetings.

The *Shari'a* Board works closely with Dar Al Sharia (a DIB subsidiary established in 2007 and engaged in providing Islamic finance consultancy to the industry) which is responsible for developing new *Shari'a*-compliant products (including their structure, process and documentation), review structure and documentation for sukuk, syndication and fund transactions, and obtaining ongoing guidance and approval from the *Shari'a* Board. Dar Al Sharia is comprised of a number of highly qualified and experienced lawyers, bankers and *Shari'a* scholars with expertise in Islamic banking and finance.

The *Shari'a* Board submits an annual report to the General Assembly of DIB's shareholders and the Board of Directors summarising issues, if any, which have been referred to it, as well as its opinion on DIB's overall functioning during the fiscal year under review. The *Shari'a* Board's annual report is included in DIB's annual audited financial statements.

The following table sets out the names of the current *Shari'a* Board:

Name	Position
Professor Dr. Hussain Hamid Hassan	Chairman
Dr. Mohamed Abdul Hakim Zoeir	Secretary General
Dr. Muhammad Qaseem	Member
Dr. Muhammad Abdulrahim Sultan Al-Ulama	Member
Dr. Youssif Abdullah Saleh Al Shubaily	Member

Detailed below is brief biographical information on the members of the Fatwa and *Shari'a* Supervisory Board.

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 the University of New York, USA and graduated in Law and Economics from the 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 *Shari'a* supervisory boards of several Islamic financial Institutions including Islamic Development Bank, Ajman Bank, Amlak Finance, Deutsche Bank, Liquidity Management Centre, Dubai Financial Markets, AMAN Takaful Company, Methaq Takaful Insurance Company-Abu Dhabi, Jordan Dubai Islamic Bank, Abu Dhabi Islamic Bank Egypt, Dubai Islamic Bank Pakistan, Bank Al Salam-Bahrain, Bank Sohar-Oman and various other financial institutions. He is also a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board, the Fiqh Academy of Muslim World League and the International Fiqh Academy of the Organisation of Islamic Countries.

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 books into various languages.

Dr. Mohamed Abdul Hakim Zoeir

Dr. Zoeir holds a PhD in Islamic Economics 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 of 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 PhD (Islamic Studies) from the Faculty of Usul ud Dinis, University of Karachi. He has been a member of the *Shari'a* boards of many other institutions. Dr. Qaseem has taught various courses for a number of B.A. and M.A. programmes of the International Islamic University, Islamabad.

Dr. Qaseem has produced many academic contributions, articles and literary and translation works.

Dr. Muhammad Abdulrahim Sultan Al-Ulama

Dr. Al-Ulama holds a PhD in Islamic jurisprudence, is an assistant professor at various universities and is a member of numerous academic committees. He has published a number of articles and reports, in addition to his contributions to seminars and conferences in the Islamic finance arena held around the world.

Dr. Youssif Abdullah Saleh Al Shubaily

Dr. Al Shubaily holds a PhD 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 Shubaily has worked in the Islamic Institution in Washington, served as a member of the *Shari'a* board of 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 (excludes outsourced staff)

As at 30 September 2014, DIB had 1,863 employees compared to 1,843 employees as at 31 December 2013 and 1,744 employees as at 31 December 2012. As at 30 September 2014, DIB had an Emiratisation level of 43.80 per cent. compared to 46.66 per cent. as at 31 December 2013 and 46.56 per cent. as at 31 December 2012. DIB had a staff turnover of 10.95 per cent. for the nine month period between 30 September 2014 and 31 December 2013 and 11.94 per cent. for the twelve month period between 31 December 2013 and 31 December 2012.

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 Quwain 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 Vice President and Prime Minister of the UAE is Sheikh Mohammed bin Rashid Al Maktoum who is also the Ruler of Dubai.

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. The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees and sets federal policies.

Based on IMF data for 2012 (extracted from the World Economic Outlook Database (October 2014)), in terms of nominal GDP, 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 2013, the UAE had approximately 6.6 per cent. of the world's proven crude oil reserves (giving it the sixth largest proven crude 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 (extracted from the World Economic Outlook Database (October 2014)), real GDP in the UAE increased by 1.6 per cent. in 2010, 4.9 per cent. in 2011 and 4.7 per cent. in 2012. Based on the same source, the IMF estimates that real GDP in the UAE increased by 5.2 per cent. in 2013 and will increase by 4.3 per cent. in 2014.

On 17 August 2014, 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 overshadowed 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 World Trade Organisation ("**WTO**"), progress towards economic liberalisation has been slow, although trade agreements with Europe and the United States are being negotiated.

Summary

Within the UAE as a whole, the financial corporations sector was estimated to have contributed approximately 6.9 per cent. of real GDP in 2013, 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 June 2014 were AED 1,281 billion, compared to AED 1,177 billion at 31 December 2013 and AED 1,099 billion at 31 December 2012.

The table below provides a statistical analysis of the UAE banking sector as at 31 December in each of 2012 and 2013 and (save where indicated) 30 June 2014.

	2012	2013	2014(1)
Total number of banks	51	51	51
Total number of branches(2)	890	928	945
Total number of employees(3)	36,246	36,087	36,692
Total credit facilities(4)(5) (*AED billion*)	1,099	1,177	1,281
Total deposits(6) (*AED billion*)	1,168	1,279	1,400
Total assets(7) (*AED billion*)	1,794	1,945	2,237

Notes:

(1) As at 30 June 2014.

(2) Excluding pay offices and electronic banking service units.

(3) Excluding auxiliary staff.

(4) Gross figures are reported for March 2014 onwards, whereas data of the previous months are net of provisions and interest suspense.

(5) Including Purchased or Discounted Commercial Bills.

(6) Excluding Inter-bank Deposits and Bank Drafts but including Commercial Prepayments.

(7) Excluding inter-bank deposits.

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 co-ordinating 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 June 2014, 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 June 2014, 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 P.J.S.C. and National Bank of Dubai P.J.S.C. merged.

In addition, in May 2011, Dubai Bank P.J.S.C. ("**Dubai Bank**") 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 ("**EI**"), a subsidiary of ENBD, completed its acquisition of Dubai Bank, and Dubai Bank is now a fully-owned subsidiary of EI.

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, EI, Noor Bank, Al Hilal Bank, Sharjah Islamic Bank, Ajman Bank, Dubai Islamic Insurance & 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 of a given Emirate 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 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 NASDAQ Dubai's Official List 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 the percentage of 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 30 June 2014, excluding interbank deposits and bank drafts but including commercial prepayments. Government deposits contributed approximately 14 per cent. of total deposits as at 30 June 2014.

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 1 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 ("**USRR**"): The USRR 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 is 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 1 and Tier 2) 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 1 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 were 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, are being 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

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.

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 or unfunded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding prescribed limits. Exposures above these limits are subject to Central Bank approval.

On 17 November 2013, the UAE Central Bank published a circular (the "**2013 Large Exposures Limits Circular**") amending certain large exposure limits. Large exposures are defined as a percentage of the bank's capital base calculated under Basel II. The 2013 Large Exposure Limits Circular was effective as of the date that was one month from the date of its publication in the official gazette. UAE banks will be required to implement the 2013 Large Exposures Limits Circular within five years of its effective date. UAE banks are also required to submit a comprehensive plan to comply with the 2013 Large Exposure Limits Circular within three months of its publication. Set out below is a table showing a summary of the changes introduced by the 2013 Large Exposure Limits Circular:

	New Limit		Old Limit	
	Individual	Aggregate	Individual	Aggregate
	(percentage)			
UAE Federal Government and their non-commercial entities	N/A	N/A	Exempt	Exempt
UAE local Government	N/A	100	Exempt	Exempt
UAE local Government non-commercial entities	25	100	Exempt	Exempt
Commercial entities of federal government and UAE local governments	25	100	25	None
Single borrowers or a group of related borrowers	25	N/A	7	N/A
Shareholders who own 5 per cent. or more of the bank's capital and related entities	20	50	7	None
Exposure to bank's subsidiaries and affiliates	10	25	20	60
Board members	5	25	5	25

In addition, 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 shareholders' 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.

Mortgage Cap

Central Bank notice no. 31/2013 was published in the UAE official gazette on 28 November 2013 and entered into force on 28 December 2013. Notice no. 31/2013 (which supersedes Central Bank notice no. 3871/2012) specifies that the amount of mortgage loans for non-UAE nationals should not exceed 75 per cent. of the property value for the purchase of a first home with a value of less than or equal to AED 5 million and, for the purchase of a first home with a value greater than AED 5 million, the amount of mortgage loans should not exceed 65 per cent. of the property value. For purchases of second and subsequent homes, the limit for non-UAE nationals is set at 60 per cent. of the property value (irrespective of the value of the property in question). The corresponding limits for UAE nationals are set at 80 per cent. in respect of the purchase of a first home with a value less than or equal to AED 5 million, 70 per cent. for a first home with a value greater than AED 5 million and 65 per cent. of the property value for a second or subsequent home purchase (irrespective of the value of the property).

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.

Establishing a Credit Bureau in the UAE

Al Etihad Credit Bureau ("**AECB**") is a federal government company specialised in providing UAE-based credit reports and other financial information. AECB is expected to commence operations in 2014 upon receiving formal approval of the bureau's regulations and credit report charges from the UAE Cabinet. AECB has approached all UAE-based banks to sign data sharing agreements to enable the provision of customer credit information. AECB expects to complete the agreements with the banks and create an electronic database by the time it commences operations.

During 2014, the majority of the participating banks made successful initial data submissions to AECB. Moreover, participating banks also had their first look at the bureau system as user acceptance testing commenced. The implementation of regulations for the sharing of credit report data and the commercial operation of the UAE's first credit bureau is expected to reduce the risk involved in the origination of customer lending and banking business generally.

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 the Issue Date between DIB, 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 will comprise (i) the cash proceeds of the issuance of the Certificates pending application thereof in accordance with the terms of the Transaction Documents; (ii) 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 the covenant to indemnify the Trustee given by DIB pursuant to the Declaration of Trust); and (iii) all amounts 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 Condition 5.3. 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 Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against 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 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 the present and future powers (including the power to sub-delegate), trusts, rights, authorities (including but not limited to the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, exercise all of the rights of the Trustee under the Mudaraba Agreement and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the provisions of the Declaration of Trust and the Conditions. 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, shall 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 12.1 (*DIB Events*), the Delegate may at its discretion (acting on behalf of Certificateholders) or shall, if so requested in writing by Certificateholders holding at least one-fifth of the then aggregate face amount of the Certificates outstanding, in each case subject to Condition 12.3(e)(i), take one or more of the following steps: (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 steps, actions or proceedings for the bankruptcy of DIB; and/or (iv) claim in the liquidation of DIB and/or (v) take such other steps, actions or proceedings which, under the laws of the UAE, have an analogous effect to the actions referred to in (i) to (iv) above, in each case for (subject to the provisos contained in Condition 12.3(a)), 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

(b) without prejudice to Conditions 12.1 and 12.3 and the provisions of clause 17 of the Declaration of Trust, 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 and without further notice (subject in each case to Condition 12.3(e)(i)), institute such steps, actions or proceedings against DIB and/or 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 12.2, 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 in accordance with the Transaction Documents.

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 Condition 5.3.

Mudaraba Agreement

The Mudaraba Agreement will be entered into on or before the Issue Date between DIB (as the Mudareb) and DIB Tier 1 Sukuk (2) Ltd. (as Rab-al-Maal and Trustee) and will be governed by the laws 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 to the Mudareb and will end on (i) the date on which the Certificates are redeemed in whole but not in part in accordance with the Conditions following the constructive liquidation of the Mudaraba in accordance with the terms of the Mudaraba Agreement (the "**Mudaraba End Date**") or (ii) (if earlier) (A) on the Non-Viability Event Write-down date or (B) on the date on which any payment obligation under the Mudaraba Agreement is due and on such payment date any of the Solvency Conditions are not satisfied or a bankruptcy order in respect of the Mudareb has been issued by a court in the UAE.

Pursuant to the Mudaraba Agreement the proceeds of the issue of the Certificates will be contributed by the Rab-al-Maal to the Mudareb and shall form the Mudaraba Capital. The Mudaraba Capital shall be invested by DIB (as Mudareb), on an unrestricted co-mingling basis, 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 in the Mudaraba Agreement 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 (i) greater than the then applicable Periodic Distribution Amount, the amount of any excess shall be credited to a reserve account (the "**Mudaraba Reserve**") and the Rab-al-Maal Mudaraba Profit or the Rab-al-Maal Final Mudaraba Profit (as applicable) payable to the Trustee will be reduced accordingly; or (ii) is less than the then applicable Periodic Distribution Amount, the Mudareb shall first utilise any amount available in the Mudaraba Reserve (after re-crediting amounts to it in accordance with the terms of the Mudaraba Agreement if there is any such shortfall) and, if a shortfall still exists following such re-credit, it may (at its sole discretion) elect (but shall not be obliged) to make one or more payments from its own cash resources in order to cover such shortfall. 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 and to use such amounts for its own purposes provided that such amounts shall be repaid by it to the Mudaraba Reserve 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 Principal Paying Agent, the Delegate and the Certificateholders, in each case providing details of such Non-Payment Election or Non-Payment Event in accordance with the notice periods set out in the Mudaraba Agreement. 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. If any amount of Rab-al-Maal Mudaraba Profit or Rab-al-Maal Final Mudaraba Profit is not paid as a consequence of a Non-Payment Election or a Non-Payment Event, then from the date of such Non-Payment Election or Non-Payment Event (the "**Dividend Stopper Date**"), the Mudareb shall be prohibited from declaring or paying certain distributions or dividends, declaring or 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 the next following payment of Rab-al-Maal Mudaraba Profit or, as the case may be, Rab-al-Maal Final Mudaraba Profit following a Dividend Stopper Date, is made in full to the Trustee following such Non-Payment Election or Non-Payment Event (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Trustee).

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 15 nor more than 20 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 15 nor more than 20 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 DIB Event occurs and a Dissolution Notice is delivered pursuant to Condition 12.1 (*DIB Events*) and the Trustee takes any action specified in sub-clauses 8.2.1 to 8.2.5 of the Mudaraba Agreement. 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 being satisfied including whether DIB is Solvent at such time.

The Mudaraba Agreement also provides that if a Non-Viability Event occurs at any time on or after the Effective Date, a Write-down will take place. In such circumstances, the Mudaraba Agreement will be automatically terminated (and the Trustee shall not be entitled to any claim for any amounts in connection with the Mudaraba Assets), the Certificateholders' rights to the Trust Assets shall automatically be deemed to be irrevocably and unconditionally written-down in whole and the Certificates shall be cancelled.

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 free and clear of and without any withholding or deduction for or on account 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.

Agency Agreement

The Agency Agreement will be entered into on the Issue Date 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 (or procure the authentication of) 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 (or procure the authentication of) 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 Condition 5.3.

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.

The Trustee has been incorporated under the laws of the Cayman Islands as an exempted Company with limited liability and, as such, has applied for and expects to receive an undertaking from the Governor in Cabinet of the Cayman Islands pursuant to the Tax Concessions Law (2011 Revision) of the Cayman Islands that, for a period of twenty years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Issuer or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Issuer, or (ii) by way of the withholding in whole or part, of any relevant payment (as defined in Section 6(3) of the Tax Concessions Law (2011 Revision)). 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 U.S.$855.

UAE

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.

EU Savings Directive

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of payments of interest and other similar income paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period it elects otherwise. A number of third countries and territories including Switzerland have adopted similar measures to the Savings Directive. The precise scope of what constitutes interest or similar income for the purposes of the Savings Directive is unclear and accordingly it is possible that certain payments which are made in respect of the Certificates (such as the Periodic Distribution Amounts) could be within the scope of the Savings Directive.

The Council of the European Union has adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transactions Tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by ten of the eleven participating Member States indicated an intention to implement the FTT progressively, such that it would initially apply to shares and certain derivatives, with this initial implementation occurring by 1 January 2016.

The FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation. Additional EU Member States may decide to participate. Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a ''United States account'' of the Trustee (a "**Recalcitrant Holder**"). The Trustee may be classified as an FFI. The new withholding regime is now in effect for payments from sources within the United States and will apply to payments of gross proceeds (including principal repayments) from the disposition of property that can produce U.S. source interest or dividends beginning 1 January 2017 and ''foreign passthru payments'' (a term not yet defined) no earlier than 1 January 2017.

The United States and a number of other jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, it is expected that an FFI in a Model 1 IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being a "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

In particular, the Cayman Islands entered into a Model 1 IGA with the United States on 29 November 2013 (which came into force on 14 April 2014) (the "**US IGA**") and have entered into a similar intergovernmental agreement (the "**UK IGA**") with the United Kingdom. The Trustee will be required to comply with the Cayman Islands Tax Information Authority Law (2014 Revision)(as amended) together with regulations and guidance notes made pursuant to such Law (the "**Cayman FATCA Legislation**") that give effect to the US IGA and the UK IGA. To the extent the Trustee cannot be treated as a Non-Reporting Cayman Islands Financial Institution (as defined in the US IGA and the UK IGA) by qualifying for one of the categories set out in Annex II thereto (for example by being a Sponsored Investment Entity (as defined therein)), the Trustee may be a "Reporting Cayman Islands Financial Institution" (as defined therein). As such, the Trustee would be required to register with the IRS to obtain a Global Intermediary Identification Number and to report to the Cayman Islands Tax Information Authority any payments made to (i) Specified US Persons with respect to US Reportable Accounts and (ii) Specified UK Persons with respect to UK Reportable Accounts (each such term as defined in the relevant IGA). The Cayman Islands Tax Information Authority will exchange such information with the IRS or HMRC as the case may be under the terms of the relevant IGA. Under the terms of the US IGA, withholding generally should not be imposed on payments made to the Trustee unless the IRS has specifically listed the Trustee as a "Non Participating Financial Institution", or on payments made by the Trustee to the Certificateholders unless the Trustee has assumed responsibility for withholding under United States tax law.

Whilst the Certificates are in global form and held within Euroclear or Clearstream, Luxembourg (together, the "**ICSDs**"), it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Certificates by the Trustee, any Paying Agent and the Common Depositary, given that each of the entities in the payment chain between the Trustee and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Certificates. The documentation in respect of the Certificates expressly contemplates the possibility that the Certificates may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, Definitive Certificates will only be printed in remote circumstances.

If an amount in respect of FATCA Withholding were to be deducted or withheld from a Periodic Distribution Amount, Dissolution Distribution Amount or other payment on the Certificates as a result of FATCA, none of the Trustee, any Paying Agent or any other person would, pursuant to the Conditions of the Certificates be required to pay Additional Amounts as a result of the deduction or withholding. As a result, investors may receive less profit or principal than expected.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and Model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Trustee and to payments they may receive in connection with the Certificates.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 19 January 2015 between the Trustee, DIB, Al Hilal Bank P.J.S.C., Dubai Islamic Bank P.J.S.C. (in its capacity as joint lead manager), Emirates NBD Capital Limited, HSBC Bank plc, National Bank of Abu Dhabi P.J.S.C., Noor Bank P.J.S.C., Sharjah Islamic Bank P.J.S.C. and Standard Chartered Bank (together, the "**Joint Lead Managers**"), the Trustee has agreed to issue and sell to the Joint Lead Managers (other than Dubai Islamic Bank P.J.S.C. in its capacity as a Joint Lead Manager) U.S.$1,000,000,000 in aggregate face amount of the Certificates and, subject to certain conditions, the Joint Lead Managers (other than Dubai Islamic Bank P.J.S.C. in its capacity as a Joint Lead Manager) have jointly and severally agreed to subscribe for the Certificates.

The Subscription Agreement provides that the obligations of the Joint Lead Managers (other than Dubai Islamic Bank P.J.S.C. in its capacity as a Joint Lead Manager) 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 Joint Lead Managers (other than Dubai Islamic Bank P.J.S.C. in its capacity as a Joint Lead Manager) 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 Joint Lead Managers (other than Dubai Islamic Bank P.J.S.C. in its capacity as a Joint Lead Manager) will also be reimbursed in respect of certain of their expenses, and each of the Trustee and DIB has agreed to indemnify the Joint Lead Managers against certain liabilities incurred in connection with the issue and offering of the Certificates.

Certain of the Joint Lead 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.

In connection with the offering of the Certificates, any shareholder or related party of DIB may invest in and may take up Certificates in the offering and may retain, purchase or sell for its own account such Certificates. Accordingly, references herein to the Certificates being offered should be read as including any offering of the Certificates to any shareholder or related party of DIB. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

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 Joint Lead 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 of the Certificates 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 during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates within the United States or to, or for the account or benefit of, U.S. persons.

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 (whether or not participating in the offering of the Certificates) may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead 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 the Certificates 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.

UAE (excluding the Dubai International Financial Centre)

Each Joint Lead 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 UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Cayman Islands

Each Joint Lead Manager has represented and agreed that it has not made and will not make any offer or invitation (whether directly or indirectly) to any member of the public in the Cayman Islands to subscribe for the Certificates.

Dubai International Financial Centre

Each Joint Lead 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 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 or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an 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 "Offers 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 Joint Lead Manager has represented, warranted and undertaken that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

The offer of Certificates shall not constitute a "public offer" pursuant to the KSA Regulations. Investors are informed that Article 17 of the KSA Regulations places 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)(i) 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 Joint Lead 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 Joint Lead Manager has represented and agreed that it has not offered, sold or delivered, and will not offer or sell or deliver at any time, directly or indirectly, any Certificates in the State of Qatar, including the Qatar Financial Centre, except: (a) in compliance with all applicable laws and regulations of the State of Qatar, including the Qatar Financial Centre; 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 Joint Lead 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 (Winding Up and Miscellaneous Provisions) 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

Each Joint Lead Manager has acknowledged that 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 Joint Lead Manager has represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase, 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, and has not circulated or distributed, 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 or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, or (b) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Malaysia

Each Joint Lead 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**"); and

(b) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 or Section 229(l)(b)) and Schedule 7 or Section 230(l)(b) read together with 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 Joint Lead 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. 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

None of the Trustee, DIB or any Joint Lead Manager has made any representation that any action will be taken in any jurisdiction by the Joint Lead Managers or the Trustee 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 Joint Lead Manager has agreed that it will comply to the best of its knowledge and belief with all applicable 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 offering or publicity material relating to the Certificates, in all cases at its own expense.

GENERAL INFORMATION

Listing

Application has been made to the Irish Stock Exchange for the Certificates to be admitted to listing on the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID. It is expected that the listing of the Certificates on the Official List and admission of the Certificates to trading on the Main Securities Market will be granted on or around 21 January 2015.

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 Main Securities 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 Trustee 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 Main Securities Market will be approximately €5,190.

Application has also been made to the DFSA for the Certificates to be admitted to listing on the DFSA Official List and to NASDAQ Dubai for the Certificates to be admitted to trading on NASDAQ Dubai. The total expenses relating to the admission to trading of the Certificates on NASDAQ Dubai are estimated to be U.S.$7,000.

Authorisation

The issue of the Certificates has been duly authorised by a resolution of the Board of Directors of the Trustee dated 5 January 2015. DIB Tier 1 Sukuk (2) 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 directors of DIB on 22 October 2014.

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 116728443 and ISIN XS1167284436.

The address of Euroclear is Euroclear Bank SA/NV, 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 since 30 September 2014 and there has been no material adverse change in the financial position or prospects of DIB and its subsidiaries since 31 December 2013. There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the prospects of 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 16, 17, 119 and 120 of this Prospectus in "*Risk Factors – Risks Relating to DIB – 9/11 Litigation*" and "*Description of Dubai Islamic Bank P.J.S.C. – 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

Since the date of its incorporation, no financial statements of the Trustee have been prepared. 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 KPMG Lower Gulf Limited ("**KPMG**") of P.O. Box 3800, Dubai, UAE. KPMG were appointed as auditors of DIB on 2 March 2014. The September 2014 Unaudited Financial Information has been reviewed by KPMG, as stated in their review report included in this Prospectus. KPMG has no material interest in DIB. KPMG are independent auditors regulated by and registered to practice as auditors with the Ministry of Economy in the UAE. There is no professional institute of auditors in the UAE and, accordingly, KPMG is not a member of a professional body in the UAE. All of KPMG's audit professionals and partners are members of the institutes from which they received their professional qualification.

Deloitte & Touche (M.E.), chartered accountants, have audited, and rendered unqualified audit reports on, the consolidated financial statements of DIB for the two financial years ended 31 December 2012 and 31 December 2013.

Documents Available

For as long as any Certificates remain outstanding, copies of the following documents will be available in electronic and physical format and in English to be inspected and/or collected during normal business hours at the specified office for the time being of the Principal Paying Agent:

(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 and the Sharia Committee of Dar al Sharia Legal & Financial Consultancy LLC, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the Shariah Supervisory Committee of Standard Chartered Bank and the Fatwa and *Shari'a* Supervisory Board of Noor Bank P.J.S.C. 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.

Description of the members of the Fatwa and *Shari'a* Supervisory Board of DIB, the Executive Shariah Committee of HSBC Saudi Arabia Limited, the Shariah Supervisory Committee of Standard Chartered Bank and the Fatwa and *Shari'a* Supervisory Board of Noor Bank P.J.S.C.

The Fatwa and Shari'a Supervisory Board of DIB

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 the University of New York, USA and graduated in Law and Economics from the 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 *Shari'a* supervisory boards of several Islamic financial Institutions including Islamic Development Bank, Ajman Bank, Amlak Finance, Deutsche Bank, Liquidity Management Centre, Dubai Financial Markets, AMAN Takaful Company, Methaq Takaful Insurance Company-Abu Dhabi, Jordan Dubai Islamic Bank, Abu Dhabi Islamic Bank Egypt, Dubai Islamic Bank Pakistan, Bank Al Salam-Bahrain, Bank Sohar-Oman and various other financial institutions. He is also a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Islamic Financial Services Board, the Fiqh Academy of Muslim World League and the International Fiqh Academy of the Organisation of Islamic Countries.

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 books into various languages.

Dr. Mohamed Abdul Hakim Zoeir

Dr. Zoeir holds a PhD in Islamic Economics 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 of 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 PhD (Islamic Studies) from the Faculty of Usul ud Dinis, University of Karachi. He has been a member of the *Shari'a* boards of many other institutions. Dr. Qaseem has taught various courses for a number of B.A. and M.A. programmes of the International Islamic University, Islamabad.

Dr. Qaseem has produced many academic contributions, articles and literary and translation works.

Dr. Muhammad Abdulrahim Sultan Al-Ulama

Dr. Al-Ulama holds a PhD in Islamic jurisprudence, is an assistant professor at various universities and is a member of numerous academic committees. He has published a number of articles and reports, in addition to his contributions to seminars and conferences in the Islamic finance arena held around the world.

Dr. Youssif Abdullah Saleh Al Shubaily

Dr. Al Shubaily holds a PhD 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 Shubaily has worked in the Islamic Institution in Washington, served as a member of the *Shari'a* board of many other institutions and has more than 17 published reports and research papers.

Executive Shariah Committee of HSBC Saudi Arabia Limited

Sheikh Nizam S. Yaquby

Sheikh Nizam is an internationally acclaimed scholar in the Islamic banking industry. He has been a teacher of Tafsir since 1976, and has advised a number of banks and financial institutions on matters pertaining to Islamic banking and finance, acting as an independent consultant based in Bahrain. He has a BA in Economics and Comparative Religion from McGill University (Canada).

Sheikh Nizam is currently on the *Shari'a* boards of the Central Bank of Bahrain, the Accounting & Auditing Organization for Islamic Financial Institutions, International Islamic Financial Market, the Islamic Rating Agency, the Dow Jones Islamic Index and other international financial institutions.

Dr. Mohamed Ali Elgari

Dr. Mohamed Ali Elgari holds a PhD from the University of California. Dr. Mohamed Ali Elgari is a former director of the Center for Research in Islamic Economics at King Abdulaziz University in Saudi Arabia, where he also served as a Professor of Islamic Economics. He is an expert at the Islamic Jurisprudence Academy of the OIC (Organisation of Islamic Cooperation) and the Islamic Jurisprudence Academy of the Islamic World League. He has published numerous articles and books on Islamic banking and finance and is the editor of the Review of Islamic Economics and a member of the Academic Committee of Islamic Development Bank.

Shariah Supervisory Committee of Standard Chartered Bank

Dr. Abdul Sattar Abu Ghuddah

Dr. Abdul Sattar Abu Ghuddah holds a PhD in Islamic Law from Al Azhar University Cairo, Egypt. He is a professor of Fiqh, Islamic studies and Arabic in Riyadh and an active member of the Jeddah-based Islamic Fiqh Academy and the Accounting & Auditing Standards Board of Islamic Financial Institutions. He also served in the Ministry of Awqaf, Kuwait. Dr. Abu Ghuddah has written several books on Islamic finance. He is a *Shari'a* adviser to several international and local financial institutions world-wide.

Dr. Mohamed Ali Elgari

Please see the description of Dr. Mohamed Ali Elgari set out above.

Sheikh Nizam S. Yaquby

Please see the description of Sheikh Nizam S. Yaquby set out above.

The Fatwa and Shari'a Supervisory Board of Noor Bank P.J.S.C.

Dr. Mohamed Ali Elgari

Please see the description of Dr. Mohamed Ali Elgari set out above.

Dr. Abdul Sattar Abu Ghuddah

Please see the description of Dr. Abdul Sattar Abu Ghuddah set out above.

Dr. Mohd Daud Bakar

Dr. Mohd Daud Bakar received his first degree in *Shari'a* from University of Kuwait and a PhD from the University of St. Andrews. In 2002, he completed his external Bachelor of Jurisprudence at the University of Malaya. He is currently Group Chairman of Amanie Advisors, a global Islamic finance consulting firm. He is also currently the Chairman of the *Shari'a* Advisory Council at the Central Bank of Malaysia, the Securities Commission of Malaysia and the Labuan Financial Services Authorities. He is also a member of the *Shari'a* boards of many Islamic financial institutions around the world. He was previously Deputy Vice-Chancellor at the International Islamic University Malaysia.

Dr. Mohammed Abdulrahim Sultan Al Olama

Dr. Mohammed Abdulrahim Sultan Al Olama completed his Bachelor's degree in *Shari'a* from Islamic University in Madina Al-Munawara and his Master's and PhD in Islamic Finance from Ummul-Qura University. He is an Associate Professor at the UAE University's Islamic Studies department and participates in seminars and research activities around the world. A published author, he is a member of several *Shari'a* Boards.

INDEX TO FINANCIAL STATEMENTS

Dubai Islamic Bank P.J.S.C.

Review report and condensed consolidated interim financial information

For the nine-month period ended 30 September 2014

Dubai Islamic Bank P.J.S.C.

Review report and condensed consolidated interim financial information (Unaudited)
For the nine-month period ended 30 September 2014

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Independent auditors' report on review of condensed consolidated interim financial information

The Shareholders
Dubai Islamic Bank P.J.S.C

Introduction

We have reviewed the accompanying condensed consolidated interim financial information of Dubai Islamic Bank P.J.S.C ("the Bank") and its subsidiaries (together referred to as "the Group"), consisting of the condensed consolidated interim statement of financial position as at 30 September 2014, the condensed consolidated interim statement of profit or loss for the three month and nine month periods ended 30 September 2014, the condensed consolidated interim statement of comprehensive income for the three month and nine month periods ended 30 September 2014, the condensed consolidated interim statements of changes in equity and cash flows for the nine-month period ended 30 September 2014, and notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2014 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other Matters

The condensed consolidated interim financial information for the nine-month period ended 30 September 2013 and the consolidated financial statements for the year ended 31 December 2013 were reviewed and audited respectively by another auditor who expressed an unmodified review conclusion on the condensed consolidated interim financial information for the nine-month period ended 30 September 2013 on 11 November 2013 and an unmodified audit opinion on the consolidated financial statements for the year ended 31 December 2013 on 29 January 2014.

KPMG

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793

22 OCT 2014

Condensed consolidated interim statement of financial position
as at 30 September 2014

	Notes	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
ASSETS			
Cash and balances with central banks	5	25,141,848	22,712,964
Due from banks and financial institutions	6	3,740,534	9,606,168
Islamic financing and investing assets, net	7	71,124,762	56,070,638
Investments in Islamic sukuk measured at amortised cost	8	14,983,931	11,642,553
Other investments measured at fair value	9	2,170,923	2,029,657
Investments in associates and joint ventures	10	1,793,051	1,877,829
Properties held for development and sale		1,114,995	1,840,973
Investment properties	11	1,870,098	2,013,314
Receivables and other assets		5,960,232	4,957,374
Property and equipment		579,021	536,968
Total assets		128,479,395	113,288,438
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	12	95,499,576	79,060,541
Due to banks and financial institutions		4,298,104	2,630,006
Sukuk instruments issued by the Bank	13	2,847,175	2,807,603
Payables and other liabilities		8,559,596	12,282,511
Zakat payable		12	165,588
Total liabilities		111,204,463	96,946,249
EQUITY			
Share capital	14	3,953,751	3,953,751
Tier 1 sukuk	14	3,673,000	3,673,000
Other reserves and treasury shares	14	5,494,116	5,495,696
Investments fair value reserve		(466,855)	(563,850)
Exchange translation reserve		(288,117)	(280,833)
Retained earnings		2,759,359	2,013,921
Equity attributable to owners of the Bank		15,125,254	14,291,685
Non-controlling interests		2,149,678	2,050,504
Total equity		17,274,932	16,342,189
Total liabilities and equity		128,479,395	113,288,438

H.E. Mohammad Ibrahim Al Shaibani
Chairman

Abdulla Ali Al Hamli
Managing Director

Dr. Adnan Chilwan
Chief Executive Officer

The notes on page 7 to 27 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of profit or loss (Unaudited)
for the nine-month period ended 30 September 2014

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000
NET REVENUE				
Income from Islamic financing transactions	**1,151,508**	1,019,491	**3,236,999**	3,025,546
Commissions, fees and foreign exchange income	**293,372**	198,697	**874,149**	632,480
Income from properties held for development and sale, net	**25,778**	41,935	**201,104**	149,468
Share of profit from associates and joint ventures	**11,294**	16,915	**49,714**	62,404
Income from investment properties	**18,395**	18,067	**64,858**	38,238
Income from other investments measured at fair value, net	**3,891**	8,329	**30,594**	24,324
Other income	**147,988**	6,771	**250,712**	91,943
Total revenue	**1,652,226**	1,310,205	**4,708,130**	4,024,403
Less: depositors' and sukuk holders' share of profit	**(207,530)**	(252,717)	**(604,332)**	(849,471)
Net revenue	**1,444,696**	1,057,488	**4,103,798**	3,174,932
OPERATING EXPENSES				
Personnel expenses	**(346,346)**	(236,879)	**(952,574)**	(767,921)
General and administrative expenses	**(154,268)**	(116,950)	**(435,718)**	(357,294)
Depreciation of property and equipment	**(25,056)**	(25,488)	**(72,865)**	(76,113)
Depreciation of investment properties	**(9,384)**	(9,982)	**(27,847)**	(19,899)
Total operating expenses	**(535,054)**	(389,299)	**(1,489,004)**	(1,221,227)
Profit before net impairment charges and taxation	**909,642**	668,189	**2,614,794**	1,953,705
Impairment charge for the period, net	**(182,499)**	(206,346)	**(537,683)**	(751,116)
Profit for the period before income tax expense	**727,143**	461,843	**2,077,111**	1,202,589
Income tax expense	**(4,166)**	(491)	**(17,129)**	(2,547)
Net profit for the period	**722,977**	461,352	**2,059,982**	1,200,042
Attributable to:				
Owners of the Bank	**676,807**	434,791	**1,954,362**	1,135,016
Non-controlling interests	**46,170**	26,561	**105,620**	65,026
Net profit for the period	**722,977**	461,352	**2,059,982**	1,200,042
Earnings per share (AED per share) (Note 15)	**AED 0.14**	AED 0.08	**AED 0.44**	AED 0.26

The notes on page 7 to 27 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of comprehensive income (Unaudited)
for the nine-month period ended 30 September 2014

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000
Net profit for the period	**722,977**	461,352	**2,059,982**	1,200,042
Other comprehensive income/(loss) items				
Items that will not be reclassified subsequently to profit or loss:				
Fair value gain on other investments carried at FVTOCI, net	**81,512**	71,266	**111,618**	181,601
Board of directors' remuneration	-	-	**(5,150)**	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations, net	**6,684**	(18,161)	**(7,284)**	(53,141)
Other comprehensive income for the period	**88,196**	53,105	**99,184**	128,460
Total comprehensive income for the period	**811,173**	514,457	**2,159,166**	1,328,502
Attributable to:				
Owners of the Bank	**764,689**	487,495	**2,049,844**	1,262,189
Non-controlling interests	**46,484**	26,962	**109,322**	66,313
Total comprehensive income for the period	**811,173**	514,457	**2,159,166**	1,328,502

The notes on page 7 to 27 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of changes in equity (Unaudited)

for the nine-month period ended 30 September 2014

	Share capital AED'000	Tier 1 sukuk AED'000	Other reserves and treasury shares AED'000	Investments fair value reserve AED'000	Exchange translation reserve AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interests AED'000	Total equity AED'000
	Equity attributable to owners of Bank								
Balance at 1 January 2013	3,797,054	-	5,348,964	(817,913)	(192,100)	951,776	9,087,781	2,691,509	11,779,290
Net profit for the period	-	-	-	-	-	1,135,016	1,135,016	65,026	1,200,042
Other comprehensive income for the period	-	-	-	180,314	(53,141)	-	127,173	1,287	128,460
Total comprehensive income for the period	-	-	-	180,314	(53,141)	1,135,016	1,262,189	66,313	1,328,502
Transactions with owners directly in equity:									
Dividend paid (Note 21)	-	-	-	-	-	(569,558)	(569,558)	(25,063)	(594,621)
Zakat adjustment	-	-	-	-	-	-	-	(14,332)	(14,332)
Tier 1 sukuk issuance (Note 14 (b))	-	3,673,000	-	-	-	-	3,673,000	-	3,673,000
Tier 1 sukuk issuance cost	-	-	-	-	-	(29,267)	(29,267)	-	(29,267)
Tier 1 sukuk profit distribution (Note 14 (b))	-	-	-	-	-	(114,781)	(114,781)	-	(114,781)
Transfer on disposal/reclassification of other investments carried at FVTOCI	-	-	-	(5,399)	-	5,399	-	-	-
Acquisition of non-controlling interests	156,697	-	148,948	-	-	327,040	632,685	(632,690)	(5)
Treasury shares	-	-	(512)	-	-	443	(69)	69	-
Share capital issuance cost	-	-	-	-	-	(667)	(667)	-	(667)
Balance at 30 September 2013	3,953,751	3,673,000	5,497,400	(642,998)	(245,241)	1,705,401	13,941,313	2,085,806	16,027,119
Balance at 1 January 2014	**3,953,751**	**3,673,000**	**5,495,696**	**(563,850)**	**(280,833)**	**2,013,921**	**14,291,685**	**2,050,504**	**16,342,189**
Net profit for the period	-	-	-	-	-	**1,954,362**	**1,954,362**	**105,620**	**2,059,982**
Other comprehensive income for the period	-	-	-	**107,916**	**(7,284)**	**(5,150)**	**95,482**	**3,702**	**99,184**
Total comprehensive income for the period	-	-	-	**107,916**	**(7,284)**	**1,949,212**	**2,049,844**	**109,322**	**2,159,166**
Transactions with owners directly in equity:									
Dividend paid (Note 21)	-	-	-	-	-	**(986,526)**	**(986,526)**	**(10,362)**	**(996,888)**
Treasury shares	-	-	**(1,580)**	-	-	**1,366**	**(214)**	**214**	-
Zakat adjustment	-	-	-	-	-	**72**	**72**	-	**72**
Tier 1 sukuk profit distribution (Note 14 (b))	-	-	-	-	-	**(229,562)**	**(229,562)**	-	**(229,562)**
Tier 1 sukuk issuance cost	-	-	-	-	-	**(45)**	**(45)**	-	**(45)**
Transfer on disposal/reclassification of other investments carried at FVTOCI	-	-	-	**(10,921)**	-	**10,921**	-	-	-
Balance at 30 September 2014	**3,953,751**	**3,673,000**	**5,494,116**	**(466,855)**	**(288,117)**	**2,759,359**	**15,125,254**	**2,149,678**	**17,274,932**

The notes on page 7 to 27 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Condensed consolidated interim statement of cash flows (Unaudited)
for the nine-month period ended 30 September 2014

	Nine-month period ended 30 September	
	2014 AED'000	2013 AED'000
Operating activities		
Net profit for the period before income tax expense	**2,077,111**	1,202,589
Adjustments for:		
Share of profit of associates and joint ventures	**(49,714)**	(62,404)
Income from disposal of properties held for development and sale	**(201,104)**	(44,607)
Dividend income	**(30,874)**	(22,023)
(Loss)/Gain on disposal of other investments	**210**	(992)
Revaluation of investments at fair value through profit or loss	**69**	(72)
Gain on sale of investments in Islamic sukuk	**(31,173)**	(66,670)
Gain on disposal of property and equipment	**(527)**	(91)
Gain on disposal of investment properties	**(16,000)**	-
Gain on reclassification of investment in associate to other investment	**(42,841)**	-
Depreciation of property and equipment	**72,865**	76,113
Depreciation of investment properties	**27,847**	19,899
Property and equipment written off	**111**	13
Impairment charge for the period, net	**537,683**	751,115
Operating cash flow before changes in operating assets and liabilities	**2,343,663**	1,852,870
Increase in deposits and international murabahat with over three months maturity	**3,480,446**	(6,344,528)
Increase in Islamic financing and investing assets	**(15,441,213)**	(936,354)
Increase in receivables and other assets	**(1,054,059)**	(310,360)
Increase in customers' deposits	**16,367,934**	13,068,087
Increase/(decrease) in due to banks and other financial institutions	**1,664,783**	(3,577,145)
(Decrease)/increase in payables and other liabilities and Zakat payable	**(3,898,381)**	838,254
Cash generated from operations	**3,463,173**	4,590,824
Tax paid	**(5,453)**	(4,682)
Net cash generated from operating activities	**3,457,720**	4,586,142
Investing activities		
Net movement in investments in Islamic sukuk measured at amortised cost	**(3,284,976)**	460,174
Net movement in other investments measured at fair value	**206,178**	147,466
Dividend received	**52,987**	33,565
Additions to properties held for development and sale	**(58,168)**	(102,185)
Proceeds from disposal of properties held for development and sale	**904,188**	232,213
Purchase of investment properties	**(3,441)**	(15,910)
Net movement in investments in associates and joint ventures	**(109,549)**	(19,325)
Purchase of property and equipment	**(105,896)**	(56,240)
Proceeds from disposal of property and equipment	**432**	108
Proceeds from disposal of investment properties	**120,942**	-
Net cash (used in)/generated from investing activities	**(2,277,303)**	679,866
Financing activities		
Dividend paid	**(996,888)**	(594,621)
Tier 1 sukuk profit distribution	**(229,562)**	(114,781)
Tier 1 sukuk issuance, net	**(45)**	3,643,733
Repayment of medium term wakala finance	**-**	(3,752,543)
Net movement in sukuk instruments issued by the Bank	**39,572**	(1,866,613)
Share capital issuance cost	**-**	(667)
Net cash used in financing activities	**(1,186,923)**	(2,685,492)
Net (decrease)/increase in cash and cash equivalents	**(6,506)**	2,580,516
Cash and cash equivalents at the beginning of the period	**17,369,132**	10,548,086
Effect of exchange rate changes on the balance of cash held in foreign currencies	**50,202**	23,826
Cash and cash equivalents at the end of the period (Note 16)	**17,412,828**	13,152,428

The notes on page 7 to 27 form an integral part of these condensed consolidated interim financial information

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30 September 2014

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

This condensed consolidated interim financial information combine the activities of the Bank and its subsidiaries as disclosed in Note 24 to these condensed consolidated interim financial information (together referred to as the "Group").

2. Application of new and revised International Financial Reporting Standards (IFRSs)

(a) New and revised IFRSs applied with no material effect on the condensed consolidated interim financial information

The following revised IFRSs have been adopted in these condensed consolidated interim financial information. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- *Amendments to IFRS 10 Consolidated Financial Statements - amendments for investment entities*
- *Amendments to IFRS 12 Disclosure of interests in Other Entities - amendments for investment entities*
- *Amendments to IAS 27 Separate Financial Statements (as amended in 2011) - amendments for investment entities*
- *Amendments to IAS 32 Financial instruments: Presentation - amendments relating to the offsetting of assets and liabilities*
- *Amendments to IAS 36 Impairment of Assets – Amendments arising from Recoverable Amount Disclosures for Non-Financial Asset*
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Amendments for novation of derivatives
- IFRIC 21 *Levies*

(b) New and revised standards in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
• *Amendments to* IFRS 2 *Shared-based Payment – Definition of 'vesting condition'*	1 July 2014
• *Amendments to* IFRS 3 *Business Combinations – Accounting for contingent consideration and scope exception for joint ventures*	1 July 2014
• *Amendments to* IFRS 8 *Operating Segments – Aggregation of segments, and reconciliation of segment assets*	1 July 2014

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(b) New and revised standards in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
• *Amendments to IFRS 11 Joint Arrangements – Amendments regarding the accounting for acquisitions of an interest in a joint operation*	1 January 2016
• *Amendments to* IFRS 13 *Fair Value Measurement – Scope of the portfolio exception*	1 July 2014
• IFRS 15 *Revenue from contracts with customers – it specifies how and when entities should recognise revenue and requiring the entities to provide users of financial statements with more informative, relevant disclosures.*	1 January 2017
• *Amendments to* IAS 16 *Property, Plant and Equipment – Proportionate restatement of accumulated depreciation on revaluation*	1 July 2014
• *Amendments to* IAS 16 *Property, Plant and Equipment – Amendments regarding the clarification of acceptable methods of depreciation and amortisation*	1 January 2016
• *Amendments to* IAS 19 *Employee Benefits – Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service*	1 July 2014
• *Amendments to* IAS 24 *Related Party Disclosures – Management entities*	1 July 2014
• *Amendments to* IAS 38 *Intangible Assets – Proportionate restatement of accumulated depreciation on revaluation*	1 July 2014
• *Amendments to* IAS 38 *Intangible Assets - Amendments regarding the clarification of acceptable methods of depreciation and amortisation*	1 January 2016
• *Amendments to* IAS 40 *Investment Property – Interrelationship between* IFRS 3 *and* IAS 40	1 July 2014

As of date of issuance of this condensed consolidated interim financial information, management are still in the process of evaluating the impact of these new and revised standards on the condensed consolidated interim financial information.

3. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial information are prepared in accordance with International Accounting Standard 34, "*Interim Financial Reporting*" issued by the International Accounting Standards Board and also complies with the applicable requirements of the laws in the U.A.E.

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30September 2014 (continued)

3. Basis of preparation (continued)

(a) Statement of compliance (continued)

These condensed consolidated interim financial information do not include all the information required for a complete set of IFRS consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2013. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2013.

(b) Judgments and estimates

The preparation of these condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, equity, income and expense. Actual amount may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies, and the key sources of estimates uncertainty were the same as those which were applied to the consolidated financial statements as at and for the year ended 31 December 2013.

4. Significant accounting policies

The accounting policies used in the preparation of these condensed consolidated financial information are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2013, except for changes in reportable segments as disclosed in Note 17.

Summary of significant accounting policies applied in the preparation of these condensed consolidated interim financial information are as follows:

(a) Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2013.

(b) Investments in Islamic Sukuk

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 basis less any impairment, with profit recognised on an effective yield basis in income from investments in Islamic Sukuk in the condensed consolidated interim statement of profit or loss.

Subsequent to initial recognition, if the objective of the business model changes so that the amortised cost criteria is no longer met, the Group is required to reclassify investments in Islamic Sukuk from amortised cost to fair value through profit or loss ("FVTPL").

4. Significant accounting policies (continued)

(b) Investments in Islamic Sukuk (continued)

The Group 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 ("FVTPL"), if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost. At the reporting date, the Group has elected not to designate any investments in Islamic Sukuk as FVTPL under the fair value option.

(c) Other investments

Investments measured at fair value through profit or loss ("FVTPL")

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition.

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 condensed consolidated interim statement of profit or loss.

Dividend income on investments in equity instruments at FVTPL is recognised in the condensed consolidated interim statement of profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in the condensed consolidated interim statement of profit or loss.

Investments measured at fair value through other comprehensive income ("FVTOCI")

On initial recognition, the Group 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 Group 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 condensed consolidated interim statement of profit or loss when the Group'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.

(d) Investment properties

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. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

4. Significant accounting policies (continued)

(d) Investment properties (continued)

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 condensed consolidated interim statement of profit or loss 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, or commencement of an operating lease to another party. 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.

(e) Investments in associates and joint ventures

The results and assets and liabilities of associates and joint ventures are incorporated in these condensed consolidated interim financial information using the equity method of accounting. Under the equity method, an investment in associates and joint ventures is initially recognised in the condensed consolidated interim statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates and joint ventures. When the Group's share of losses of associates and joint ventures exceeds the Group's interest in that associates and joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the associates and joint ventures), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture.

When a Group's entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture is recognised in the Group' condensed consolidated interim financial information only to the extent of interests in the associate or joint venture that are not related to the Group.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of associates and joint ventures recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group'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 condensed consolidated interim statement of profit or loss in the period in which the investment is acquired.

The requirements of International Financial Reporting Standards are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in associate and joint venture.

The Group discontinues the use of equity method from the date when the investment ceases to be an associate or a joint venture. The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in joint venture becomes an investment in an associate.

4. Significant accounting policies (continued)

(e) Investments in associates and joint ventures (continued)

Upon disposal of associates and joint ventures that results in the Group losing significant influence over that associates and joint ventures, 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 associates and joint ventures attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associates and joint ventures. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associates and joint ventures on the same basis as would be required if that associates and joint ventures had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associates and joint ventures would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associates and joint ventures.

5. Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Cash in hand	**2,125,131**	1,740,992
Balances with the central banks:		
Current accounts	**1,330,627**	888,259
Reserve requirements with central banks (Note 5 (b))	**5,999,427**	5,095,569
International murabahat with the Central Bank of the U.A.E.	**15,686,663**	14,988,144
Total	**25,141,848**	22,712,964

(b) The reserve requirements are kept with the Central Banks of the U.A.E. and Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Group'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.

(c) The geographical analysis of the cash and balances with central banks is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Within the U.A.E.	**24,842,330**	22,546,487
Outside the U.A.E.	**299,518**	166,477
Total	**25,141,848**	22,712,964

6. Due from banks and financial institutions

The geographical analysis of the Group's due from banks and financial institutions is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Within the U.A.E.	**1,825,992**	7,328,001
Outside the U.A.E.	**1,914,542**	2,278,167
Total	**3,740,534**	9,606,168

7. Islamic financing and investing assets, net

(a) The analysis of the Group's Islamic financing and investing assets, net is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Islamic financing assets		
Vehicles murabahat	**7,778,502**	5,960,304
Commodities murabahat	**4,917,395**	4,276,412
Real estate murabahat	**3,272,272**	3,737,731
International murabahat - long term	**7,596,450**	884,689
Total murabahat	**23,564,619**	14,859,136
Ijaras	**15,977,043**	13,160,813
Home finance ijara	**11,220,802**	11,376,246
Salam finance	**8,084,117**	6,235,659
Istisna'a	**4,316,285**	3,482,002
Islamic credit cards	**470,238**	422,199
	63,633,104	49,536,055
Less: deferred income on murabahat	**(1,898,668)**	(1,889,228)
Less: contractors' and consultants' istisna'a contracts	**(536,269)**	(122,583)
Total Islamic financing assets	**61,198,167**	47,524,244
Islamic investing assets		
Mudaraba	**6,414,355**	4,026,973
Musharakat	**4,675,890**	5,644,561
Wakalat	**3,833,613**	3,448,133
Total Islamic investing assets	**14,923,858**	13,119,667
Total Islamic financing and investing assets	**76,122,025**	60,643,911
Less: provisions for impairment (Note 7 (c))	**(4,997,263)**	(4,573,273)
Total Islamic financing and investing assets, net	**71,124,762**	56,070,638

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30 September 2014 (continued)

7. Islamic financing and investing assets, net (continued)

(b) The geographical analysis of Islamic financing and investing assets, net is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Within the U.A.E.	**71,382,341**	58,036,170
Outside the U.A.E.	**4,739,684**	2,607,741
Total Islamic financing and investing assets	**76,122,025**	60,643,911
Less: provisions for impairment (Note 7 (c))	**(4,997,263)**	(4,573,273)
Total Islamic financing and investing assets, net	**71,124,762**	56,070,638

(c) Movements in the provisions for impairment are as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Balance at the beginning of the period/year	**4,573,273**	3,699,422
Charge for the period/year	**947,945**	1,153,085
Release to consolidated statement of profit or loss	**(543,592)**	(301,455)
Written (off)/back during the period/year	**3,716**	6,802
Foreign exchange effect	**14,615**	(3,799)
Other movements	**1,306**	19,218
Balance at the end of the period/year	**4,997,263**	4,573,273

8. Investments in Islamic sukuk measured at amortised cost

(a) The geographical analysis of the Group's investments in Islamic sukuk measured at amortised cost is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
At amortised cost		
Within the U.A.E.	**12,364,103**	10,204,306
Other G.C.C. Countries	**660,260**	519,985
Rest of the world	**1,959,568**	918,262
Total	**14,983,931**	11,642,553

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30 September 2014 (continued)

8. Investments in Islamic sukuk measured at amortised cost (continued)

(b) Investments in Islamic sukuk measured at amortised cost within the U.A.E. include investments in bilateral governmental sukuk amounting to AED 3,306 million as at 30 September 2014 (31 December 2013: AED 3,673 million).

9. Other investments measured at fair value

The geographical analysis of the other investments measured at fair value is as follows:

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
30 September 2014 (Unaudited)				
Investments designated at fair value through profit or loss				
Quoted equity instruments	**3,175**	-	-	**3,175**
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	**880,026**	**184,605**	**11,955**	**1,076,586**
Unquoted equity instruments	**742,082**	**41,526**	**80,575**	**864,183**
Unquoted investment funds	**5,864**	**1,787**	**219,328**	**226,979**
	1,627,972	**227,918**	**311,858**	**2,167,748**
Total	**1,631,147**	**227,918**	**311,858**	**2,170,923**
31 December 2013 (Audited)				
Investments designated at fair value through profit or loss				
Quoted equity instruments	790	-	-	790
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	629,484	184,610	44,544	858,638
Unquoted equity instruments	803,848	42,249	84,326	930,423
Unquoted investment funds	3,916	1,795	234,095	239,806
	1,437,248	228,654	362,965	2,028,867
Total	1,438,038	228,654	362,965	2,029,657

10. Investments in associates and joint ventures

During the period ended 30 September 2014, the Group acquired 24.9% of PT Bank Panin Syariah Tbk, Indonesia by acquiring 2,427,750,000 shares. The Group is in the process to increase its stake to 40% after obtaining required regulatory approvals.

11. Investment properties

The geographical analysis of investment properties is as follows:

30 September 2014 (Unaudited)	**Land AED'000**	**Other real estate AED'000**	**Properties under construction AED'000**	**Total AED'000**
Cost:				
Within the U.A.E.	**890,584**	**431,362**	**650,873**	**1,972,819**
Outside the U.A.E.	**152,242**	**398,059**	**-**	**550,301**
Total cost	**1,042,826**	**829,421**	**650,873**	**2,523,120**
Less: accumulated depreciation and impairment				**(653,022)**
Carrying amount				**1,870,098**
31 December 2013 (Audited)				
Cost:				
Within the U.A.E.	890,580	385,447	685,210	1,961,237
Outside the U.A.E.	257,182	420,070	-	677,252
Total cost	1,147,762	805,517	685,210	2,638,489
Less: accumulated depreciation and impairment				(625,175)
Carrying amount				2,013,314

12. Customers' deposits

(a) The analysis of the Group's customers' deposits is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Current accounts	**23,746,787**	20,606,115
Saving accounts	**14,009,325**	12,927,264
Investment deposits	**57,213,767**	45,126,102
Margin accounts	**323,525**	226,332
Depositors' investment risk reserve (Note 12 (b))	**113,351**	105,396
Depositors' share of profit payable	**92,821**	69,332
Total	**95,499,576**	79,060,541

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30 September 2014 (continued)

12. Customers' deposits (continued)

(b) Depositors' investment risk reserve represents a portion of the depositors' share of profits set aside as a reserve. This reserve is paid to the depositors with the approval of the Group's Fatwa and Sharia'a Supervisory Board.

13. Sukuk instruments issued by the Group

The analysis of the sukuk instruments issued by the Group is as follows:

	Expected annual profit rate	Maturity	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Sukuk issued by the Bank	4.75%	May 2017	**1,836,500**	1,836,500
Sukuk issued by a subsidiary	5.15%	January 2017	**1,010,675**	971,103
Total			**2,847,175**	2,807,603

14. Equity

(a) Share capital

As at 30 September 2014, 3,953,751,107 authorised ordinary shares of AED 1 each (31 December 2013: 3,953,751,107 ordinary shares of AED 1 each) were fully issued and paid up.

(b) Tier 1 sukuk

In March 2013, the Bank issued Tier 1 sukuk amounting to USD 1,000 million (equivalent to AED 3,673 million). Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. Tier 1 sukuk is callable by the Bank after the six-year period ending March 2019 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Tier 1 sukuk bears an expected profit rate of 6.25% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on the prevailing 6 year U.S. Mid Swap Rate plus initial margin of 495.5 basis points. At the Bank's sole discretion, the Bank may, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. Profit distributed during the nine-month period ended 30 September 2014 amounts to AED 229.6 million (nine-month period ended 30 September 2013: AED 114.8 million)

(c) Other reserves and treasury shares

As of 30 September 2014 (Unaudited), other reserves and treasury shares balance includes treasury shares amounting to AED 14.7 million (8,527,153 shares) (As of 31 December 2013 (Audited): AED 13.1 million (7,649,631 shares)).

15. Earnings per share (Unaudited)

Basic and diluted earnings per share is calculated by dividing the net profit for the period attributable to the owners of the Bank by the weighted average number of shares in issue and outstanding throughout the period as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2014 (AED'000)	2013 (AED'000)	**2014 (AED'000)**	2013 (AED'000)
Profit for the period attributable to the owners of the Bank	**676,807**	434,791	**1,954,362**	1,135,016
Board of Directors' remuneration paid	**-**	-	**(5,150)**	-
Profit attributable to tier 1 sukuk holders	**(114,781)**	(114,781)	**(229,562)**	(114,781)
	562,026	320,010	**1,719,650**	1,020,235
Weighted average number of shares used in the calculation of basic and diluted earnings per share (number of shares in thousands)	**3,945,224**	3,947,421	**3,945,853**	3,873,749
Basic earnings per share (AED per share)	**0.14**	0.08	**0.44**	0.26

There is no dilution impact on basic earnings per share.

16. Cash and cash equivalents (Unaudited)

	30 September 2014 AED'000	30 September 2013 AED'000
Cash and balances with central banks	**25,141,848**	21,502,434
Due from banks and financial institutions	**3,740,534**	6,213,494
	28,882,382	27,715,928
Less: balances and deposits with banks and financial institutions with original maturity over 3 months	**(11,469,554)**	(14,563,500)
Total	**17,412,828**	13,152,428

17. Segmental information

Reportable segments

(a) Reportable segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segment and to assess its performance.

(b) The Group's reportable segments are organised into five major segments as follows:

- Consumer banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, salam, ijarah (including home finance ijarah), credit cards and funds transfer facilities, and trade finance facilities.
- Corporate banking:	Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers.
- Real estate development:	Property development and other real estate investments by subsidiaries.
- Treasury:	Principally responsible for managing the Bank's overall liquidity and market risk and provides treasury services to customers. Treasury also runs its own Islamic debt and specialises financial instruments book to manage the above risks.
- Other:	Functions other than above core lines of businesses including investment banking services.

(c) During the nine-month period ended 30 September 2014, the management changed the structure of its reportable segments and internal reports and accordingly, reportable segments' titles, definitions and amounts were modified. The comparative amounts were restated as required by IFRS 8 *Operating Segments*.

(d) The accounting policies of the above reportable segments are the same as the Group's accounting policies. Transactions between segments are conducted at estimated profit rates which approximate to market rates on an arm's length basis.

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30 September 2014 (continued)

17. Segmental information (continued)

Reportable segments **(continued)**

(e) The following table presents summarised condensed consolidated interim statement of profit and loss related to Group's reportable segments:

	Consumer banking		Corporate banking		Real estate development		Treasury		Other		Total	
	Nine-month period ended 30 September		Nine-month period ended 30 September		Nine-month period ended 30 September		Nine-month period ended 30 September		Nine-month period ended 30 September		Nine-month period ended 30 September	
	2014 (Unaudited) AED'000	2013 (Unaudited) AED'000	**2014 (Unaudited) AED'000**	2013 (Unaudited) AED'000	**2014 (Unaudited) AED'000**	2013 (Unaudited) AED'000	**2014 (Unaudited) AED'000**	2013 (Unaudited) AED'000	**2014 (Unaudited) AED'000**	2013 (Unaudited) AED'000	**2014 (Unaudited) AED'000**	2013 (Unaudited) AED'000
Net revenue	**2,005,752**	1,624,675	**1,122,083**	979,652	**410,250**	211,180	**454,581**	342,702	**111,132**	16,723	**4,103,798**	3,174,932
Operating expenses	**(1,041,733)**	(856,291)	**(158,483)**	(126,376)	**(110,811)**	(94,754)	**(22,578)**	(16,420)	**(155,399)**	(127,386)	**(1,489,004)**	(1,221,227)
Net operating income	**964,019**	768,384	**963,600**	853,276	**299,439**	116,426	**432,003**	326,282	**(44,267)**	(110,663)	**2,614,794**	1,953,705
Impairment charge for the period, net	**(193,210)**	(249,030)	**(207,563)**	(402,942)	**(129,660)**	(29,278)	**-**	-	**(7,250)**	(69,866)	**(537,683)**	(751,116)
Net profit for the period before income tax expense	**770,809**	519,354	**756,037**	450,334	**169,779**	87,148	**432,003**	326,282	**(51,517)**	(180,529)	**2,077,111**	1,202,589
Income tax expense											**(17,129)**	(2,547)
Net profit for the period											**2,059,982**	1,200,042

17. Segmental information (continued)

***Reportable segments* (continued)**

(f) The following table presents assets and liabilities regarding the Group's reportable segments:

	Consumer banking		Corporate banking		Real estate development		Treasury		Other		Total	
	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000	**30 September 2014 (Unaudited) AED'000**	31 December 2013 (Audited) AED'000	**30 September 2014 (Unaudited) AED'000**	31 December 2013 (Audited) AED'000	**30 September 2014 (Unaudited) AED'000**	31 December 2013 (Audited) AED'000	**30 September 2014 (Unaudited) AED'000**	31 December 2013 (Audited) AED'000	**30 September 2014 (Unaudited) AED'000**	31 December 2013 (Audited) AED'000
Segment assets	**30,787,987**	26,184,186	**42,711,484**	31,711,839	**4,588,515**	4,968,647	**18,217,869**	21,074,762	**32,173,540**	29,349,004	**128,479,395**	113,288,438
Segment liabilities	**51,249,317**	50,019,615	**48,034,632**	38,100,341	**1,532,264**	1,896,850	**6,931,962**	5,087,814	**3,456,288**	1,841,629	**111,204,463**	96,946,249

18. Related party transactions

(a) The Group enters into arm's length transactions with shareholders, directors, key management personnel, their related concerns and the Group's associates and joint ventures in the ordinary course of business at commercial profit and commission rates.

(b) As at 30 September 2014 and 31 December 2013, the major shareholder of the Bank is Investment Corporation of Dubai ("ICD"), a company in which the Government of Dubai is the majority shareholder.

(c) Balances and transactions between the Bank and its subsidiaries, which are related parties of the Group, have been fully eliminated upon consolidation and they are not disclosed in this note.

(d) The significant balances and transactions with related parties included in these condensed consolidated interim financial information are as follows:

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates and joint ventures AED'000	Total AED'000
As at 30 September 2014 (Unaudited)				
Islamic financing and investing assets	**1,591,634**	**12,129**	**6,703**	**1,610,466**
Investment in Islamic sukuk measured at amortised cost	**743,914**	**-**	**-**	**743,914**
Customers' deposits	**2,152,900**	**25,222**	**10,007**	**2,188,129**
Contingent liabilities and commitments	**-**	**6**	**224**	**230**
As at 31 December 2013 (Audited)				
Islamic financing and investing assets	1,591,634	50,921	5,964	1,648,519
Investment in Islamic sukuk measured at amortised cost	-	-	-	-
Customers' deposits	3,021,695	40,955	14,883	3,077,533
Contingent liabilities and commitments	-	6	14,120	14,126
For the nine-month period ended 30 September 2014 (Unaudited)				
Income from Islamic financing transactions	**42,745**	**750**	**325**	**43,820**
Depositors' and sukuk holders' share of profits	**24,155**	**49**	**-**	**24,204**
For the nine-month period ended 30 September 2013 (Unaudited)				
Income from Islamic financing transactions	29,609	2,891	2,009	34,509
Depositors' and sukuk holders' share of profits	53,064	100	-	53,164

(e) No impairment allowances have been recognised against Islamic financing and investing assets extended to related parties or contingent liabilities and commitments issued in favour of the Group's related parties during the nine-month period ended 30 September 2014 (nine-month period ended 30 September 2013: Nil).

18. Related party transactions (continued)

(f) The compensation paid to/accrued for key management personnel of the Bank during the nine-month periods ended 30 September 2014 and 2013 was as follows:

	30 September 2014 (Unaudited) AED'000	30 September 2013 (Unaudited) AED'000
Salaries and other benefits	**17,003**	16,343

19. Fair value of financial instruments

(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The table below summarises the Group's financial instruments fair value according to fair value hierarchy:

30 September 2014 (Unaudited)

	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	**3,175**	-	-	**3,175**
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	**1,076,586**	-	-	**1,076,586**
Unquoted equity instruments	-	-	**864,183**	**864,183**
Unquoted investment funds	-	-	**226,979**	**226,979**
Other assets				
Islamic derivative assets	-	**54,422**	-	**54,422**
Total financial assets measured at fair value	**1,079,761**	**54,422**	**1,091,162**	**2,225,345**
Other liabilities				
Islamic derivative liabilities	-	**55,621**	-	**55,621**

19. Fair value of financial instruments (continued)

(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

31 December 2013 (Audited)

	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	790	-	-	790
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	858,638	-	-	858,638
Unquoted equity instruments	-	-	930,423	930,423
Unquoted investment funds	-	-	239,806	239,806
Other assets				
Islamic derivative assets	-	21,041	-	21,041
Total financial assets measured at fair value	859,428	21,041	1,170,229	2,050,698
Other liabilities				
Islamic derivative liabilities	-	10,136	-	10,136

There were no transfers between Level 1 and 2 during the period ended 30 September 2014 and year ended 31 December 2013.

(b) 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 Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
30 September 2014 (Unaudited)					
Financial assets:					
Investments in Islamic sukuk measured at amortised cost	**14,983,931**	**14,557,060**	-	**813,741**	**15,370,801**
31 December 2013 (Audited)					
Financial assets:					
Investments in Islamic sukuk measured at amortised cost	11,642,553	11,154,576	-	856,177	12,010,753

20. Capital adequacy ratio

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Capital base		
Tier 1 Capital	**15,020,851**	14,186,383
Tier 2 Capital	**575,982**	338,498
Deductions from capital	**(614,725)**	(570,260)
Total capital base	**14,982,108**	13,954,621
Risk weighted assets		
Credit risk	**86,196,476**	70,199,816
Market risk	**3,976,069**	1,804,650
Operational risk	**6,792,184**	4,526,311
Total risk weighted assets	**96,964,729**	76,530,777
Capital adequacy ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**15.5%**	18.2%
Tier 1 capital to total risk weighted assets after deductions for associates and joint ventures	**15.2%**	18.2%

The capital adequacy ratio calculation is based on Basel 2 and the U.A.E. Central Bank rules and regulations.

21. Dividend

At the Annual General Meeting of the shareholders held on 3 March 2014, the shareholders approved a cash dividend of AED 0.25 per outstanding share on 31 December 2013 amounting to AED 986.5 million (for the year ended 31 December 2012: cash dividend of AED 0.15 per outstanding share amounting to AED 570 million).

22. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated interim statement of profit or loss for the nine-month periods ended 30 September 2014 and 2013.

23. Contingent liabilities and commitments

The analysis of contingent liabilities and commitments is as follows:

	30 September 2014 (Unaudited) AED'000	31 December 2013 (Audited) AED'000
Contingent liabilities:		
Letters of guarantee	**8,577,317**	6,986,202
Letters of credit	**2,538,556**	3,313,044
Total contingent liabilities	**11,115,873**	10,299,246
Commitments:		
Capital expenditure commitments	**723,884**	903,605
Irrevocable undrawn facilities commitments	**16,796,991**	13,850,038
Total commitments	**17,520,875**	14,753,643
Total contingent liabilities and commitments	**28,636,748**	25,052,889

24. Subsidiaries

(a) The Group's material interest held directly or indirectly in the subsidiaries is as follows:

	Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion and ownership interest and voting power held by the Group 30 September 2014	31 December 2013
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	**86.5%**	86.5%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	**95.5%**	95.5%
5.	Deyaar Development P.J.S.C.	Real estate development	U.A.E	**44.9%**	44.9%
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.	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.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	**100.0%**	100.0%

Notes to the condensed consolidated interim financial information
for the nine-month period ended 30 September 2014 (continued)

24. Subsidiaries (continued)

(b) The following Special Purpose Vehicles ("SPV") were formed to manage specific transactions including funds, and are expected to be closed upon their completion.

	Name of SPV	Principal activity	Place of incorporation and operation	Proportion and ownership interest and voting power held by the Group	
				30 September 2014	31 December 2013
17.	HoldInvest Real Estate Sarl	Investments	Luxembourg	**Controlling interest**	Controlling interest
18.	France Invest Real Estate SAS	Investments	France	**Controlling interest**	Controlling interest
19.	SARL Barbanniers	Investments	France	**Controlling interest**	Controlling interest
20.	SCI le Sevine	Investments	France	**Controlling interest**	Controlling interest
21.	Findi Real Estate SAS	Investments	France	**Controlling interest**	Controlling interest
22.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	**Controlling interest**	Controlling interest
23.	Al Islami German Holding Co. GMBH	Investments	Germany	**Controlling interest**	Controlling interest
24.	Rhein Logistics GMBH	Investments	Germany	**Controlling interest**	Controlling interest
25.	Jef Holdings BV	Investments	Netherlands	**Controlling interest**	Controlling interest
26.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	**Controlling interest**	Controlling interest
27.	Zone One Real Estate Management Co.	Investments	Cayman Islands	**100.0%**	100.0%
28.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
29.	DIB Lease One Ltd.	Investments	Bahamas	**100.0%**	100.0%
30.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	**100.0%**	100.0%
31.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
32.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
33.	Sequia Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%
34.	Blue Nile Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%

(c) In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 7, 11, 12, 33 and 34 are also beneficially held by the Group through nominee arrangements.

25. Approval of the condensed consolidated interim financial information

The condensed consolidated interim financial information were approved by the Board of Directors and authorised for issue on 22 October 2014.

Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2013

Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2013

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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 2013, 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.

Cont'd...

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 2013 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
29 January 2014

Consolidated statement of financial position as at 31 December 2013

	Note	31 December 2013 AED'000	31 December 2012 AED'000 (Restated)	1 January 2012 AED'000 (Restated)
ASSETS				
Cash and balances with central banks	6	**22,712,964**	15,473,999	12,952,679
Due from banks and financial institutions	7	**9,606,168**	3,293,059	3,152,059
Islamic financing and investing assets, net	8	**56,070,638**	55,182,688	51,117,618
Investments in Islamic sukuk measured at amortised cost	9	**11,642,553**	11,088,662	12,688,111
Other investments at fair value	10	**2,029,657**	1,981,032	2,053,133
Investments in associates and joint ventures	11	**1,877,829**	2,029,953	1,198,928
Properties held for sale	12	**1,840,973**	1,997,374	2,558,655
Investment properties	13	**2,013,314**	2,083,010	1,918,529
Receivables and other assets	14	**4,957,374**	4,891,958	5,685,868
Property, plant and equipment	15	**536,968**	589,477	619,120
Total assets		**113,288,438**	98,611,212	93,944,700
LIABILITIES AND EQUITY				
LIABILITIES				
Customers' deposits	17	**79,060,541**	66,725,523	64,771,398
Due to banks and financial institutions	18	**2,630,006**	6,668,000	4,577,981
Sukuk financing instruments	19	**2,807,603**	4,673,960	4,173,983
Medium term wakala finance	20	**-**	3,752,543	3,752,543
Payables and other liabilities	21	**12,282,511**	4,934,700	5,265,381
Zakat payable	23	**165,588**	163,572	121,076
Total liabilities		**96,946,249**	86,918,298	82,662,362
EQUITY				
Share capital	24	**3,953,751**	3,797,054	3,797,054
Tier 1 sukuk	25	**3,673,000**	-	-
Other reserves and treasury shares	26	**5,495,696**	5,348,964	5,348,964
Investments fair value reserve	27	**(563,850)**	(817,913)	(829,632)
Exchange translation reserve	28	**(280,833)**	(192,100)	(122,830)
Retained earnings		**2,013,921**	951,776	441,098
Equity attributable to owners of the Parent		**14,291,685**	9,087,781	8,634,654
Non-controlling interests	16(c)	**2,050,504**	2,605,133	2,647,684
Total equity		**16,342,189**	11,692,914	11,282,338
Total liabilities and equity		**113,288,438**	98,611,212	93,944,700

H. E. Mohammad Ibrahim Al Shaibani
Chairman

Dr. Tariq Humaid Al Tayer
Vice Chairman

Abdulla Ali Al Hamli
Managing Director

Dr. Adnan Chilwan
Chief Executive Officer

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

Consolidated income statement
for the year ended 31 December 2013

	Note	2013 AED'000	2012 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	31	**3,348,430**	3,266,396
Income from investments in Islamic sukuk		**585,582**	621,465
Income from International murabahat and wakala, short term	32	**95,674**	58,157
Gain from other investments at fair value, net	33	**21,966**	22,483
Commissions, fees and foreign exchange income	34	**798,854**	780,014
Income from investment properties	35	**61,198**	90,295
Income from properties held for sale, net	36	**233,164**	217,392
Other income	37	**65,525**	174,814
Total income		**5,210,393**	5,231,016
EXPENSES			
Personnel expenses	38	**(1,051,159)**	(966,263)
General and administrative expenses	39	**(502,356)**	(518,436)
Depreciation of investment properties	13	**(36,198)**	(31,338)
Depreciation of property, plant and equipment	15	**(98,864)**	(103,835)
Impairment loss on financial assets, net	40	**(920,062)**	(972,633)
Reversal of impairment/(impairment loss) on non-financial assets, net	41	**95,944**	(120,624)
Total expenses		**(2,512,695)**	(2,713,129)
Operating profit before depositors' and sukuk holders' share of profit, share of profit from associates and joint ventures and income tax		**2,697,698**	2,517,887
Depositors' and sukuk holders' share of profit	42	**(1,053,831)**	(1,352,499)
Operating profit for the year		**1,643,867**	1,165,388
Share of profit from associates and joint ventures	11	**78,077**	60,857
Profit for the year before income tax		**1,721,944**	1,226,245
Income tax expense	22	**(3,915)**	(12,801)
Profit for the year		**1,718,029**	1,213,444
Attributable to:			
Owners of the Parent		**1,610,939**	1,150,072
Non-controlling interests		**107,090**	63,372
Profit for the year		**1,718,029**	1,213,444
Basic and diluted earnings per share (AED per share)	43	**AED 0.38**	AED 0.30

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

Consolidated statement of comprehensive income
for the year ended 31 December 2013

	2013 AED'000	2012 AED'000 (Restated)
Profit for the year	**1,718,029**	1,213,444
Other comprehensive income/(loss) items		
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(88,733)**	(66,639)
Items that will not be reclassified subsequently to profit or loss:		
Fair value gain on other investments carried at FVTOCI, net	**275,437**	12,276
Directors' remuneration	**(5,350)**	(5,350)
Other comprehensive income/(loss) for the year	**181,354**	(59,713)
Total comprehensive income for the year	**1,899,383**	1,153,731
Attributable to:		
Owners of the Parent	**1,777,119**	1,087,171
Non-controlling interests	**122,264**	66,560
Total comprehensive income for the year	**1,899,383**	1,153,731

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

Consolidated statement of changes in equity for the year ended 31 December 2013

	Share capital AED'000	Tier 1 sukuk AED'000	Other reserves and treasury shares AED'000	Investments fair value reserve AED'000	Exchange translation reserve AED'000	Retained earnings AED'000	Attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total Equity AED'000
Balance at 1 January 2012 (As previously reported)	3,797,054	-	5,348,964	(831,849)	(122,218)	943,484	9,135,435	1,038,322	10,173,757
Effect of the change in accounting policy for investment in subsidiaries and joint ventures (note 2 (a))	-	-	-	2,217	(612)	(502,386)	(500,781)	1,609,362	1,108,581
Balance at 1 January 2012 (Restated)	3,797,054	-	5,348,964	(829,632)	(122,830)	441,098	8,634,654	2,647,684	11,282,338
Profit for the year (Restated)	-	-	-	-	-	1,150,072	1,150,072	63,372	1,213,444
Other comprehensive loss for the year (Restated)	-	-	-	11,719	(69,270)	(5,350)	(62,901)	3,188	(59,713)
Total comprehensive income for the year (Restated)	-	-	-	11,719	(69,270)	1,144,722	1,087,171	66,560	1,153,731
Additions in the non-controlling interests (Restated)	-	-	-	-	-	-	-	110,364	110,364
Disposal of non-controlling interest (note 16 (j)) (Restated)	-	-	-	-	-	-	-	(180,605)	(180,605)
Dividends paid (note 29)	-	-	-	-	-	(474,632)	(474,632)	(24,570)	(499,202)
Zakat payable (note 23)	-	-	-	-	-	(159,412)	(159,412)	(14,300)	(173,712)
Balance at 31 December 2012 (Restated)	3,797,054	-	5,348,964	(817,913)	(192,100)	951,776	9,087,781	2,605,133	11,692,914
Profit for the year	-	-	-	-	-	1,610,939	1,610,939	107,090	1,718,029
Other comprehensive income for the year	-	-	-	260,263	(88,733)	(5,350)	166,180	15,174	181,354
Total comprehensive income for the year	-	-	-	260,263	(88,733)	1,605,589	1,777,119	122,264	1,899,383
Acquisition of non-controlling interest (note 16(d))	156,697	-	148,948	-	-	327,040	632,685	(632,690)	(5)
Share capital issuance cost	-	-	-	-	-	(667)	(667)	-	(667)
Tier 1 sukuk issuance (note 25)	-	3,673,000	-	-	-	-	3,673,000	-	3,673,000
Tier 1 sukuk issuance cost	-	-	-	-	-	(29,273)	(29,273)	-	(29,273)
Tier 1 sukuk profit paid	-	-	-	-	-	(114,781)	(114,781)	-	(114,781)
Treasury shares (note 26 (e))	-	-	(2,216)	-	-	395	(1,821)	62	(1,759)
Transfer on disposal of FVTOCI investments	-	-	-	(6,200)	-	6,200	-	-	-
Dividends paid (note 29)	-	-	-	-	-	(569,558)	(569,558)	(25,063)	(594,621)
Zakat payable (note 23)	-	-	-	-	-	(162,800)	(162,800)	(19,202)	(182,002)
Balance at 31 December 2013	**3,953,751**	**3,673,000**	**5,495,696**	**(563,850)**	**(280,833)**	**2,013,921**	**14,291,685**	**2,050,504**	**16,342,189**

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

Consolidated statement of cash flows for the year ended 31 December 2013

	2013 AED'000	2012 AED'000 (Restated)
Cash flows from operating activities		
Profit for the year before income tax expense	**1,721,944**	1,226,245
Adjustments for:		
Impairment loss on financial assets, net	**920,062**	972,633
(Reversal of impairment)/impairment loss on non-financial assets, net	**(95,944)**	120,624
Depreciation of property, plant and equipment	**98,864**	103,835
Depreciation of investment properties	**36,198**	31,338
Provision for employees' end-of-service benefits	**22,945**	23,747
Gain on disposal of investment in Islamic sukuk	**(67,122)**	(37,058)
Dividend income	**(20,274)**	(21,033)
Share of profit from associates and joint ventures	**(78,077)**	(60,857)
Gain on disposal of properties held for sale	**(122,217)**	(23,434)
Loss/(gain) on disposal of investment in associates and joint ventures	**53,636**	(4,791)
Amortisation of sukuk instruments issued by a subsidiary	**-**	5,957
Gain on disposal of subsidiaries	**(27,679)**	(3,375)
Write off of property plant and equipment	**40**	259
Revaluation of investments at fair value through profit or loss	**(15)**	64
Loss/(gain) on disposal of property, plant and equipment	**7,289**	(351)
Gain on disposal of investments at fair value through profit or loss	**(1,677)**	(1,514)
Operating cash flow before changes in operating assets and liabilities	**2,447,973**	2,332,289
Net movement in deposits and International murabahat with original maturities above three months	**(6,731,028)**	(1,867,064)
Increase in Islamic financing and investing assets	**(1,896,361)**	(4,995,458)
(Increase)/decrease in receivables and other assets	**(139,660)**	52,656
Increase in customers' deposits	**12,569,190**	2,007,844
(Decrease)/increase in due to banks and financial institutions	**(4,026,953)**	2,335,791
Increase/(decrease) in payables and other liabilities	**7,354,339**	(384,677)
Cash generated by/(used in) operating activities	**9,577,500**	(518,619)
Employees' end-of-service benefits paid	**(561)**	(829)
Tax paid	**(6,294)**	(5,652)
Net cash generated by/(used in) operating activities	**9,570,645**	(525,100)

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

Consolidated statement of cash flows
for the year ended 31 December 2013 (continued)

	2013 AED'000	2012 AED'000 (Restated)
Cash flows from investing activities		
Purchase of investments in Islamic sukuk	**(2,834,425)**	(2,235,776)
Proceeds from disposal of investments in Islamic sukuk	**2,207,919**	3,830,583
Proceeds from disposal of investments at FVTPL	**181,164**	80,341
Purchase of investments carried at FVTOCI	**(25,397)**	(4,591)
Dividend received	**43,559**	32,386
Additions to properties held for sale	**(107,165)**	(166,070)
Proceeds from disposal of investment properties	**26,565**	27,341
Proceeds from disposal of properties held for sale	**527,438**	292,076
Additions to associates and joint ventures	**(24,638)**	(6,665)
Additions to investment properties	**(16,223)**	(124,920)
Purchase of property, plant and equipment	**(70,350)**	(80,580)
Proceeds from disposal of associates and joint ventures	**136,717**	29,109
Proceeds from disposal of property, plant and equipment	**11,922**	1,039
Net cash generated by investing activities	**57,086**	1,674,273
Cash flows from financing activities		
Dividends paid	**(594,621)**	(499,202)
Zakat paid during the year	**(163,572)**	(118,639)
Tier 1 sukuk issued during the year	**3,673,000**	-
Sukuk financing instrument issued during the year	**-**	2,851,095
Sukuk financing instrument redeemed during the year	**(1,866,357)**	(2,357,075)
Sukuk financing instrument issuance cost	**(29,273)**	-
Settlement of medium term wakala finance	**(3,752,543)**	-
Cost of additional shares issued to non-controlling interests	**(667)**	-
Treasury shares purchased	**(1,759)**	-
Tier I sukuk holders' share of profit paid during the year	**(114,781)**	-
Net cash used in financing activities	**(2,850,573)**	(123,821)
Net increase in cash and cash equivalents	**6,777,158**	1,025,352
Cash and cash equivalents at the beginning of the year	**10,548,086**	9,578,719
Effects of exchange rate changes on the balance of cash held in foreign currencies	**43,888**	(55,985)
Cash and cash equivalents at 31 December (Note 44)	**17,369,132**	10,548,086

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

Notes to the consolidated financial statements for the year ended 31 December 2013

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 16) (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 16 to these consolidated financial statements.

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)

(a) New and revised IFRSs affecting the amounts reported or/and disclosures in the consolidated financial statements

In the current year, the Bank has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatory effective for an accounting period that begins on or after 1 January 2013.

i New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Bank has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Bank as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

(1) Impact of the application of IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation - Special Purpose Entities* that deal with consolidated financial statements. Based on new requirements of 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. All three of these criteria must be met for an investor to have control over an investee. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(a) New and revised IFRSs affecting the amounts reported or/and disclosures in the consolidated financial statements (continued)

i New and revised Standards on consolidation, joint arrangements, associates and disclosures (continued)

(1) Impact of the application of IFRS 10 *Consolidated Financial Statements* (continued)

In light of the new definitions and guidance of IFRS 10, the management has reassessed the control for its investees. As a consequence, the management has concluded that it has had control over its investment in the following:

Name of subsidiary	**Principal activity**	**Place of incorporation and operation**	**Proportion and ownership interest and voting power held by the Bank**	
			2013	2012
Deyaar Development P.J.S.C. ("Deyaar")	Real estate development	U.A.E.	**44.9%**	44.9%

The Bank applied acquisition accounting to the investment in Deyaar at 1 July 2010, as if Deyaar had been consolidated from that date.

Although the Bank owns less than 50% of Deyaar, the management has determined that the Bank has de-facto control over Deyaar because it is exposed to significant variable returns from its involvement with Deyaar and has power and rights to affect the amount of its returns. In prior years, the investment in Deyaar was treated as an associate and accounted for using the equity method of accounting. Comparative amounts for 2012 and the related amounts as at 1 January 2012 have been restated in accordance with the relevant transitional provisions set out in IFRS 10.

As at 1 July 2010, the fair value of net identifiable assets was as follows:

	1 July 2010 AED'000
Fair value of net identifiable assets	5,097,786
The Bank's share of the fair value of net identifiable assets	2,286,357
The Bank's investment carrying amount	(2,788,743)
Net impact on the Bank's retained earnings	(502,386)

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(a) New and revised IFRSs affecting the amounts reported or/and disclosures in the consolidated financial statements (continued)

i New and revised Standards on consolidation, joint arrangements, associates and disclosures (continued)

(2) Impact of the application of IFRS 11 *Joint Arrangements*

IFRS 11replace IAS 31 *Interests in Joint Ventures* and the guidance contained in a relating interpretation 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 and accounted for. 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 and IAS 28 (as revised in 2011) resulted in changes in the accounting of the Bank's jointly controlled entities that were previously accounted for using the proportionate consolidation method. As per the new requirements, all jointly controlled entities were deconsolidated and accounted for using the equity method of accounting.

The impact of the adoption of the abovementioned new and revised standards on the comparative amounts is disclosed in note 53 to these consolidated financial statements.

ii IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 11 and 16 to these consolidated financial statements).

iii IFRS 13 *Fair Value Measurements*

The Bank has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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 for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS17 *Leases and Measurements* that have some similarities to fair value but are not fair value (e.g. value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also IFRS 13 includes extensive disclosure requirements.

Other than additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(a) New and revised IFRSs affecting the amounts reported or/and disclosures in the consolidated financial statements (continued)

iv Amendments to IAS 1 *Presentation of Financial Statements* - statement of comprehensive income items

The amendments require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

v Amendments to IAS 1 *Presentation of Financial Statements* - comparative amounts

The annual improvements to IFRSs 2009-2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Bank are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when (i) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and (ii) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

In the current year, the Bank has applied a number of new and revised IFRSs (see above) which has resulted in material effects on the financial information in the consolidated statement of financial position as at 1 January 2012. In accordance with the amendments to IAS 1, the Bank has presented a third statement of financial position as at 1 January 2012 without the related notes.

(b) New and revised IFRSs applied with no material effect on the consolidated financial statements

The following revised IFRSs have 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 periods but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 7 *Financial Instruments: Disclosure* - Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities.
- Amendments to IFRS 9 *Financial Instruments* - Including new general hedge accounting model.
- Amendments to IAS 16 *Property, Plant and Equipment - Classification of servicing equipment*.
- IAS 19 (as revised in 2011) *Employee Benefits* - Changes the accounting for defined benefit plans and termination benefits.
- Amendments to IAS 32 *Financial Instruments - Presentation* - Tax effect of distribution to holders of equity instruments.
- IFIRC 20 *Stripping Costs in the Production Phase of a Surface Mine*.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(c) New and revised standards in issue but not yet effective

The Bank has not applied the following new and revised standards that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 10 *Consolidated Financial Statements* - Amendments for investment entities	1 January 2014
• Amendments to IFRS 12 *Disclosure of interests in Other Entities* - Amendments for investment entities	1 January 2014
• Amendments to IAS 27 *Separate Financial Statements (as amended in 2011)* - Amendments for investment entities	1 January 2014
• Amendments to IAS 32 *Financial instruments: Presentation* - Amendments relating to the offsetting of assets and liabilities	1 January 2014
• Amendments to IAS 36 *Impairment of Assets* - Amendments arising from Recoverable Amount Disclosures for Non-Financial Asset	1 January 2014
• Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* - Amendments for novation of derivatives	1 January 2014
• IFRIC 21 *Levies*	1 January 2014

As of date of issuance of these consolidated financial statements, management are still in the process of evaluating the impact of these new and revised standards on the consolidated financial statements.

3 Definitions

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

(a) Murabaha

A contract whereby the Bank (the "Seller") sells an asset to its customer (the "Purchaser"), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

(b) Salam finance

A contract whereby the Bank purchases a fixed quantity of a specified commodity and pays the full Salam price of the commodity in advance, whereas the customer delivers the quantity of the commodities in accordance with an agreed delivery schedule. The Bank makes profit on Salam transactions, when the Salam commodities are received from the Salam customer and subsequently sold to a third party at profit. Salam profit is internally accounted for on a time-apportioned basis over the period of the Salam contract based on the value of the outstanding Salam commodities.

3 Definitions (continued)

(c) Istisna'a

A sale contract between two parties whereby the Bank (the "Sani" or "Seller") undertakes to construct, for its customer (the "Mustasni" or "Purchaser"), a specific asset or property (being "Al-Masnoo") according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount. The work undertaken is not restricted to be accomplished by the Sani' alone and the whole or part of the construction/development can be undertaken by third parties under the control and responsibility of the Sani'. Under an Istisna'a contract the Bank could be the Sani' or the Mustasni'. Istisna'a profit (difference between the sale price of Al-Masnoo to the customer and the Bank's total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

(d) Ijarah

i Ijarah Muntahiya Biltamleek

An agreement whereby the Bank (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

ii Forward Ijarah

Forward Ijarah (Ijarah Mausoofa Fiz Zimma) is an agreement whereby the Bank (the "Lessor") agrees to provide, on a specified future date, a certain described asset on lease to its customer (the "Lessee") upon its completion and delivery by the developer, contractor or customer, from whom the Bank has purchased the same, by way of Istisna.

The Forward Ijarah agreement specifies the description of the leased asset, duration of the lease term, and the basis for rental calculation and the timing of rental payment.

During the construction period, the Bank pays to the developer/contractor one payment or multiple payments, Forward Ijarah profit during the construction period will be accounted for on a time-apportioned basis over the construction period on account of rentals. These profit amounts are received either during the construction period as advance rental payment or with the first or second rental payment after the commencement of the lease.

The lease rental under Forward Ijarah commences only upon the Lessee having received possession of the leased asset from the Lessor. The Lessee undertakes under the Forward Ijarah agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Forward Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

3 Definitions (continued)

(e) Musharaka

An agreement between the Bank and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be 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 according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration/distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally accounted for on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Group receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

(f) Mudaraba

A contract between two parties whereby one party is a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital"), to the other party (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

(g) Wakala

An agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle Wakala profit is distributed on declaration/distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Bank may act either as Muwakkil or as Wakeel, as the case may be.

(h) Sukuk

These comprise asset backed, Sharia'a compliant trust certificates.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

3 Definitions (continued)

(i) Amanats accounts

The Bank acts as a trustee agent for clients escrow accounts for a fixed fee.

4 Significant accounting policies

(a) 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.

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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.

(c) 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 48 to these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(d) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

- power over the investee,
- exposure, or has rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Parent and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributable to the owners of the parent and to the non-controlling interest 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 the Bank's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Bank 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/payable or received/receivable 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. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

4 Significant accounting policies (continued)

(d) Basis of consolidation (continued)

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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(e) 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. However, where the Bank provides Amanat accounts and acts as an agent for fixed fee to hold funds in escrow accounts, these are treated as other liabilities.

(f) Investments in associates and joint ventures

An associate is an entity over which the Bank has significant influence. 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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in associates and joint ventures 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 associates and joint ventures. When the Bank's share of losses of associates and joint ventures exceeds the Bank's interest in that associates and joint ventures (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associates and joint ventures), 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 associates and joint ventures.

An investment in associate as a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or joint venture. On acquisition of the investment in an associate or a joint venture, 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 associates and joint ventures 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 in the period in which the investment is acquired.

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 associates and joint ventures. 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.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(f) Investments in associates and joint ventures (continued)

The Bank discontinues the use of equity method from the date when the investment ceases to be an associate or a joint venture. When the Bank retains its interest in the former associate or joint venture and the retained interest is a financial asset, the Bank measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture 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 the equity method is discontinued.

The Bank continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

Upon disposal of associates and joint ventures that results in the Bank losing significant influence over that associates and joint ventures, 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 associates and joint ventures attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associates and joint ventures. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associates and joint ventures on the same basis as would be required if that associates and joint ventures had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associates and joint ventures 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 associates and joint ventures.

When a Bank’s entity transacts with an associate or a joint venture of the Bank, profits and losses resulting from the transactions with the associate or joint venture is recognised in the Bank’ consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Bank.

(g) 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 Significant accounting policies (continued)

(h) 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.

i Classification of financial assets

'Balances with central banks', 'due from banks and financial institutions', 'Islamic financing and investing assets', 'investments in Islamic sukuk' and certain items in 'receivables and other assets' 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.

All other financial assets are subsequently measured at fair value.

ii 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.

iii 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.

4 Significant accounting policies (continued)

(h) Financial assets (continued)

iii Financial assets at fair value through other comprehensive income (FVTOCI) (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 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 at fair value' line item.

iv 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).

Financial assets (other than equity instruments) that do not meet the amortised cost criteria (see above) are measured at FVTPL. In addition, financial assets (other than equity instruments) that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. Financial assets (other than equity 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 financial assets (other than equity instruments) as at FVTPL.

Financial 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 financial assets (other than equity 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 at fair value' line item in the consolidated income statement. Fair value is determined in the manner described in note 50 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 Significant accounting policies (continued)

(h) Financial assets (continued)

v 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.

vi Impairment of financial assets

Financial assets (including Islamic 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.

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 impairment allowance account. When the Islamic financing and investing assets are considered uncollectible, it is written off against the impairment allowance account. Subsequent recoveries of amounts previously written off are credited against the impairment allowance account. Changes in the carrying amount of the impairment 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.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(h) Financial assets (continued)

vi Impairment of financial assets (continued)

Impairment of Islamic financing and investing assets measured at amortized cost is assessed by the Bank as follows:

(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 calculated using 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.

(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.

(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.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(h) Financial assets (continued)

vi Impairment of financial assets (continued)

(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 continues 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.

vii 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.

(i) Financial liabilities and equity instruments

i 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.

ii 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.

Own equity instruments of the parent which are acquired by it or by any of its subsidiaries (treasury shares) are recognised and deducted directly in equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Parent's own equity instruments.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(i) Financial liabilities and equity instruments (continued)

ii Equity instruments (continued)

Tier 1 sukuk are perpetual Mudaraba sukuk which are not redeemable by sukukholders and bear an entitlement to profit distributions that is non-cumulative and at the discretion of the board of directors. Accordingly tier 1 sukuk are presented as a component of equity instruments issued by the Bank in equity.

Dividends on ordinary shares and profit distribution to tier 1 sukuk are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders and board of directors, respectively. Dividends for the year that are approved after the reporting date are disclosed as an unadjusting event after the reporting date.

iii 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 guarantees 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.

(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'.

(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)

(i) Financial liabilities and equity instruments (continued)

iii. Financial liabilities (continued)

(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) 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.

(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.

(j) 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 Significant accounting policies (continued)

(k) 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.

i 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.

4 Significant accounting policies (continued)

(k) Islamic derivative financial instruments (continued)

ii 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.

iii 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.

(l) Unilateral promises to buy/sell currencies (the "Promises")

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. Promises with positive market value (unrealised gain) are included in other assets and Promises with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

(m) 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.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(n) 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 46 on Business Segment reporting.

(o) 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.

(p) 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.

(q) Investment properties

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 Significant accounting policies (continued)

(r) 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 repair 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, plant 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, 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.

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, plant and equipment category and is depreciated in accordance with the Bank's policies.

(s) 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 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.

4 Significant accounting policies (continued)

(s) Impairment of tangible assets (continued)

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.

(t) 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.

(u) 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 in accordance with U.A.E. Labour Law. 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.

(v) 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 Significant accounting policies (continued)

(w) 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.

i 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.

ii 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.

(x) Zakat

Zakat for shareholders is computed based on “Net Invested Funds Method” which is in accordance with the advice of the Fatwa and Sharia’a Supervisory Board.

The Zakat for the shareholders is accounted for as follows:

i 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:

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

4 Significant accounting policies (continued)

(x) Zakat (continued)

i Zakat accounted by the Bank on shareholders' behalf (continued)

- 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.

ii Zakat payable by the shareholders

Zakat payable by the shareholders directly represents the differential/remaining Zakat after deducting the Zakat accounted by the Bank on shareholders' behalf.

(y) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

i Income from financial assets measured at amortised cost

Income from a financial asset measured at amortised cost 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 from a financial asset measured at amortised cost is accrued/amortised 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 net cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

ii Fee and commission income

Fee and commission income is recognised when the related services are performed.

iii Dividend income

Dividend income from other investments at fair value in equities is recognised when the right to receive the dividend is established.

iv Income from cancellation of properties sale contract

Income from cancellation of properties sale contract (forfeiture income) is recognised in the consolidated income statement when, in the case of properties sold and not yet recognised as revenue, a customer does not fulfil the contractual payment terms. This is deemed to take place when, despite rigorous follow-up with the defaulted customer, as per the procedures set out by the Dubai Real Estate Regulatory Authority, the customer continues to default on the contractual terms.

4 Significant accounting policies (continued)

(y) Revenue recognition (continued)

v 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.

vi Rental income

The Bank's policy for recognition of revenue from operating leases is described in note 4(aa) below.

vii 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.

(z) 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.

(aa) Leasing

i 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.

ii 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.

4 Significant accounting policies (continued)

(ab) 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 settlement 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 joint ventures 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:

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

(a) 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.

i 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.

ii 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.

(b) 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.

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

(b) Classification of investments (continued)

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.

Note 10 to these consolidated financial statements describes that the Bank owns more than 20% of two investees and classifies them as other investments measured at FVTOCI as the management has concluded that the Bank does not have significant influence over these investees. The conclusion of the Bank was based on the facts that the Bank does not have representatives in the boards of these investees and is not related to the fund managers.

Financial assets that are measured at FVTPL are either held for trading or designated as FVTPL.

(c) Impairment of associates and joint ventures

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 associates and joint ventures by comparing their recoverable amounts with the higher of value in use or fair value less costs to sell with their carrying amounts.

In determining the value in use of the investment, the Bank estimates:

- 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
- 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.

(d) 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.

The main factors which management considers when applying a model are:

- 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

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

(d) Islamic derivative financial instruments (continued)

- 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.

(e) Fair value of financial instruments

Certain assets and liabilities are measured at fair value for financial reporting purposes. The management has set up a valuation process, which involves finance and investment banking departments to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Bank uses market observable data to the extent it is available. Where level 1 inputs are not available, 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.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in note 50 to these consolidated financial statements.

(f) Property, plant and equipment, and investment properties

The cost of property, plant 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.

(g) Control over a subsidiary

Note 16 to these consolidated financial statements describes that Deyaar Development P.J.S.C. (“Deyaar”) is a subsidiary of the Bank even though the Bank has only 44.9% ownership interest and has only 44.9% of the voting rights in Deyaar. Deyaar is a listed company in Dubai Financial Market, U.A.E.. The Bank has held its 44.9% ownership since Deyaar’s inception and the remaining 55.1% of the ownership interests are held by numerous shareholders that are unrelated to the Bank.

The Bank’s management assessed whether or not the Bank has control over Deyaar based on whether the Bank has practical ability to direct the relevant activities of Deyaar unilaterally. In making their judgement, the management considered absolute size of the Bank’s holding in Deyaar and the relative size and dispersion of the holdings of other shareholders. After assessment, the management concluded that the Bank has sufficiently dominant voting power to direct the relevant activities of Deyaar and therefore the Bank has control over Deyaar.

(h) Significant influence over an associate

Note 11 to these consolidated financial statements describes that Ejar Cranes & Equipment L.L.C. (“Ejar”) is an associate of the Bank although the Bank only owns a 17% ownership interest in Ejar. The Bank has significant influence over Ejar by being the major shareholder of Ejar, having a representative in Ejar’s board of directors and being the major financing facilities provider to Ejar.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

(i) Classification of investees as joint ventures

All investees classified as investment in joint ventures are limited liability companies whose legal form confers separation between the parties to the joint arrangement and the investee themselves. Furthermore, there are no contractual arrangements or any other facts and circumstances that indicate that the parties to the joint arrangements have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, all these investees are classified as joint ventures of the Bank.

6 Cash and balances with central banks

(a) The analysis of the Bank's cash and balances with central banks as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Cash on hand	**1,740,992**	1,732,034
Balances with central banks:		
Current accounts	**888,259**	1,336,509
Reserve requirements with central banks (note 6 (c))	**5,095,569**	4,186,484
International murabahat with the Central Bank of the U.A.E.	**14,988,144**	8,218,972
Total	**22,712,964**	15,473,999

(b) The geographical analysis of the cash and balances with central banks as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Within the U.A.E.	**22,546,487**	15,332,999
Outside the U.A.E.	**166,477**	141,000
Total	**22,712,964**	15,473,999

(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 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Current accounts	**2,461,844**	652,058
Investment deposits	**1,774,263**	891,867
International murabahat - short term	**5,370,061**	1,749,134
Total	**9,606,168**	3,293,059

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

7 Due from banks and financial institutions (continued)

(b) The geographical analysis of the due from banks and financial institutions as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Within the U.A.E.	**7,328,001**	2,341,167
Outside the U.A.E.	**2,278,167**	951,892
Total	**9,606,168**	3,293,059

8 Islamic financing and investing assets, net

(a) The analysis of the Bank's Islamic financing and investing assets, net, as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Islamic financing Assets		
Vehicles murabahat	**5,960,304**	5,653,007
Commodities murabahat	**4,276,412**	3,815,483
Real estate murabahat	**3,737,731**	4,264,731
International murabahat - long term	**884,689**	286,159
Total murabahat	**14,859,136**	14,019,380
Other Ijarahs	**13,160,813**	11,519,558
Home finance Ijarah	**11,376,246**	12,318,412
Salam	**6,235,659**	4,687,193
Istisna'a	**3,482,002**	4,491,960
Islamic credit cards	**422,199**	392,490
	49,536,055	47,428,993
Deferred income	**(1,889,228)**	(2,318,116)
Contractors and consultants' Istisna'a contracts	**(122,583)**	(121,805)
Total Islamic financing assets	**47,524,244**	44,989,072
Islamic investing Assets		
Musharakat	**5,644,561**	6,824,046
Mudaraba	**4,026,973**	3,894,714
Wakalat	**3,448,133**	3,174,278
Total Islamic investing assets	**13,119,667**	13,893,038
Total Islamic financing and investing assets	**60,643,911**	58,882,110
Provisions for impairment (note 8(b))	**(4,573,273)**	(3,699,422)
Total Islamic financing and investing assets, net	**56,070,638**	55,182,688

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

8 Islamic financing and investing assets, net (continued)

(b) The movements in the provision for impairment during the years ended 31 December 2013 and 2012 are as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**3,699,422**	3,508,874
Charge for the year	**1,153,085**	1,163,674
Release to the profit or loss	**(301,455)**	(279,280)
Write-back/(write-off) during the year	**6,802**	(691,332)
Foreign exchange effect	**(3,799)**	(2,514)
Other	**19,218**	-
Balance at 31 December	**4,573,273**	3,699,422
Gross amount of Islamic financing and investing assets, determined to be impaired	**5,654,003**	6,118,079

(c) 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 mortgage on land and buildings and lien on savings and investment deposits, equities 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:

	2013 AED'000	2012 AED'000 (Restated)
Property and mortgages	**40,066,671**	41,000,515
Machineries and vehicles	**2,091,096**	2,238,444
Deposits and equities	**1,648,335**	779,402

(d) The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2013 amounts to AED 4.0 billion (2012 (Restated): AED 5.5 billion).

(e) During the year ended 31 December 2013, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 1.8 million (2012 (Restated): AED 7.5 million), which has been adjusted against the outstanding receivables.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

8 Islamic financing and investing assets, net (continued)

(f) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2013 and 2012 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
2013			
Economic sector			
Government	**4,627,479**	**91,124**	**4,718,603**
Manufacturing and services	**5,937,119**	**1,135,593**	**7,072,712**
Trade	**4,577,355**	**161,956**	**4,739,311**
Financial institutions	**1,322,238**	**635,908**	**1,958,146**
Real estate	**15,788,116**	**161,684**	**15,949,800**
Consumer home finance	**11,535,324**	**166,852**	**11,702,176**
Consumer financing	**14,248,539**	**254,624**	**14,503,163**
	58,036,170	**2,607,741**	**60,643,911**
Provision for impairment			**(4,573,273)**
Total			**56,070,638**
2012 (Restated)			
Economic sector			
Government	4,081,540	-	4,081,540
Manufacturing and services	6,930,468	1,341,666	8,272,134
Trade	2,626,914	69,785	2,696,699
Financial institutions	1,086,348	263,164	1,349,512
Real estate	17,183,583	84,972	17,268,555
Consumer home finance	12,647,712	179,222	12,826,934
Consumer financing	12,143,907	242,829	12,386,736
	56,700,472	2,181,638	58,882,110
Provision for impairment			(3,699,422)
Total			55,182,688

Notes to the consolidated financial statements
for the year ended 31 December 2013 (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 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Within the U.A.E.	**10,204,306**	10,066,975
Other G.C.C. Countries	**519,985**	233,249
Rest of the World	**918,262**	788,438
Total	**11,642,553**	11,088,662

(b) Analysis of investments in Islamic sukuk measured at amortized cost by industry group as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Government	**5,877,729**	5,390,379
Manufacturing and services	**2,433,353**	2,728,401
Financial institutions	**2,339,214**	1,943,936
Real estate	**992,257**	1,025,946
Total	**11,642,553**	11,088,662

(c) Investments in Islamic sukuk within the U.A.E. include investments in bilateral sukuk amounting to AED 3,673 million as at 31 December 2013 (2012 (Restated): AED 3,673 million).

10 Other investments at fair value

(a) The analysis of the Bank's other investments at fair value as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Investments designated at fair value through profit or loss	**790**	1,132
Investments measured at fair value through other comprehensive income	**2,028,867**	1,979,900
Total	**2,029,657**	1,981,032

(b) Analysis of other investments at fair value by industry group as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Manufacturing and services	**1,296,732**	1,195,801
Financial institutions	**402,959**	455,787
Real estate	**329,966**	329,444
Total	**2,029,657**	1,981,032

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

10 Other investments at fair value (continued)

(c) The geographical analysis of the other investments at fair value as at 31 December 2013 and 2012 is as follows:

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the World AED'000	Total AED'000
2013				
Investments designated at fair value through profit or loss				
Quoted equity instruments	**790**	**-**	**-**	**790**
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	**629,484**	**184,610**	**44,544**	**858,638**
Unquoted equity instruments	**803,848**	**42,249**	**84,326**	**930,423**
Unquoted investment funds	**3,916**	**1,795**	**234,095**	**239,806**
	1,437,248	**228,654**	**362,965**	**2,028,867**
Total	**1,438,038**	**228,654**	**362,965**	**2,029,657**
2012 (Restated)				
Investments designated at fair value through profit or loss				
Quoted equity instruments	1,132	-	-	1,132
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	143,006	1,794	233,685	378,485
	1,408,046	214,893	356,961	1,979,900
Total	1,409,178	214,893	356,961	1,981,032

(d) During the year ended 31 December 2013, dividends received from financial assets measured at fair value through other comprehensive income (FVTOCI) amounting to AED 20.2 million (2012 (Restated): AED 19.8 million) were recognized as gain from other investments at fair value in the consolidated income statement (note 33).

(e) Unquoted investments include investments in two entities amounting to AED 230.2 million in which the Bank owns more than 20% of each. These investments are not classified as investment in associates as the Bank does not have a significant influence over these investees as explained in note 5 (b) to these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

11 Investments in associates and joint ventures

(a) The analysis of the Bank's investments in associates and joint ventures as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Investments in associates and joint ventures	**1,940,876**	2,063,448
Provision for impairment	**(63,047)**	(33,495)
Net investment in associates and joint ventures	**1,877,829**	2,029,953

(b) The analysis of the Bank's share of total comprehensive income of associates and joint ventures during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
The Bank's share of profit for the year *	**78,077**	60,857
The Bank's share of other comprehensive loss for the year	**(71,142)**	(42,560)
The Bank's share of total comprehensive income for the year	**6,935**	18,297

* The Bank's share of profit for the year ended 31 December 2013 is net of forfeited income of AED 0.2 million (2012: AED 0.2 million).

(c) Details of the Bank's significant associates and joint ventures at 31 December 2013 and 2012 are as follows:

	Name of associate or joint venture	Principal activity	Place of incorporation	Percentage of holding 2013	Percentage of holding 2012 (Restated)
1.	Bank of Khartoum	Banking	Sudan	**28.4%**	28.4%
2.	Jordan Dubai Islamic Bank	Banking	Jordan	**20.8%**	20.8%
3.	Bosnia Bank International	Banking	Bosnia	**27.3%**	27.3%
4.	Emirates REIT Management Private Limited	Properties management	DIFC, U.A.E.	**25.0%**	25.0%
5.	Liquidity Management Center	Brokerage services	Bahrain	**25.0%**	25.0%
6.	Ejar Cranes & Equipment L.L.C. (note 11(e))	Equipment leasing	U.A.E.	**16.7%**	16.7%
7.	MESC Investment Company	Investments	Jordan	**40.0%**	40.0%
8.	Solidere International Al Zorah Equity Investments Inc	Property development	Cayman Islands	**22.7%**	22.7%
9.	Landmark Properties LLC	Real estate brokerage	U.A.E.	**40.0%**	40.0%
10.	Emirates REIT CEIC Limited (note 11(g))	Real estate fund	U.A.E.	**39.2%**	36.2%
11.	Al Islami Aircraft Leasing Limited	Aircraft Leasing	U.A.E.	**24.7%**	-
12.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	**50.0%**	50.0%
13.	Millennium Private Equity L.L.C.	Fund management	DIFC, U.A.E.	**50.0%**	50.0%
14.	Al Rimal Development	Property development	U.A.E.	**50.0%**	50.0%
15.	Arady Development LLC	Property development	U.A.E.	**50.0%**	50.0%
16.	Alarko Deyaar Gayrimenkul	Property development	Turkey	**-**	50.0%

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

11 Investments in associates and joint ventures (continued)

(d) All of the above associates and joint ventures are accounted for using the equity method in these consolidated financial statements.

(e) 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 one of the major shareholders of the company, having a representative in the company's board of directors and being the major financing facilities provider.

(f) As at 31 December 2013, the fair value of the Bank's listed associates is AED 168.9 million (2012 (Restated): AED 189.3 million), and the carrying amount of the Bank's interest in those associates is AED 371.1 million (2012 (Restated): AED 409.6 million). All other investments in associates and joint ventures are not listed in active markets and the management considers the carrying amounts of these investments approximate their fair values.

(g) During the year ended 31 December 2013, the management reassessed the conclusion on the classification of their interests in entities and concluded that interest in Emirates REIT CEIC Limited, U.A.E. and Al Islami Aircraft Leasing Limited, U.A.E. The Bank reclassified from other investments measured at FVTOCI to investment in associate as the Bank has significant influence over both entities. Emirates REIT CEIC Limited's reclassification was a prior year error and accordingly comparative figures were restated as disclosed in note 53 to these consolidated financial statements.

(h) Bank of Khartoum, Sudan; Jordan Dubai Islamic Bank, Jordan; Solidere International Al Zorah Equity Investments Inc, Cayman Islands; and Arady Development LLC, U.A.E. are considered as the Bank's material associates and joint ventures for financial reporting purposes. Summarized financial information in respect of each of the Bank's material associates and joint ventures is set out below. The summarized financial information below represents amounts shown in the associates' and joint ventures' financial statements prepared in accordance with IFRS and adjusted by the Bank for equity accounting purposes.

(i) **Bank of Khartoum ("BOK")**

	2013 AED'000	2012 AED'000 (Restated)
Assets	**5,199,884**	7,557,275
Liabilities	**(4,457,546)**	(6,552,627)
Net assets of the associate	**742,338**	1,004,648
Revenue	**324,239**	559,148
Profit for the year	**185,509**	159,701
Other comprehensive income	**-**	-
Total comprehensive income	**185,509**	159,701
Dividends received during the year	**-**	13,635

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

11 Investments in associates and joint ventures (continued)

Reconciliation of the above summarized financial information to the carrying amount of the interest in BOK recognized in these consolidated financial statements:

	2013 AED'000	2012 AED'000 (Restated)
Net assets of the associate	**742,338**	1,004,648
Proportion of the Bank's ownership interest in BOK	**28.4%**	28.4%
Carrying amount of the Bank's interest in BOK	**210,824**	285,320

These figures are extracted from the financial information of Bank of Khartoum for the nine-month period ended 30 September 2013 (latest available financial information) and for the year ended 31 December 2012. Management believes the financial information for the year ended 31 December 2013 will not be materially different from 30 September 2013.

(j) **Jordan Dubai Islamic Bank ("JDIB")**

	2013 AED'000	2012 AED'000 (Restated)
Assets	**2,977,776**	2,349,332
Liabilities	**(2,207,041)**	(1,590,587)
Net assets of the associate	**770,735**	758,745
Revenue	**128,067**	33,933
Profit/(loss) for the year	**11,977**	(8,197)
Other comprehensive income	**-**	-
Total comprehensive income/(loss)	**11,977**	(8,197)
Dividends received during the year	**-**	-

Reconciliation of the above summarized financial information to the carrying amount of the interest in JDIB recognized in these consolidated financial statements:

	2013 AED'000	2012 AED'000 (Restated)
Net assets of the associate	**770,735**	758,745
Proportion of the Bank's ownership interest in JDIB	**20.8%**	20.8%
Carrying amount of the Bank's interest in JDIB	**160,313**	157,819

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

11 Investments in associates and joint ventures (continued)

These figures are extracted from the financial information of Jordon Dubai Islamic Bank for the nine-month period ended 30 September 2013 (latest available financial information) and for the year ended 31 December 2012. Management believes the financial information for the year ended 31 December 2013 will not be materially different from 30 September 2013.

(k) **Solidere International Al Zorah Equity Investments Inc ("Zorah")**

	2013 AED'000	2012 AED'000 (Restated)
Assets	**1,128,639**	1,125,414
Liabilities	**(222,683)**	(222,018)
Net assets of the associate	**905,956**	903,396
Revenue	**8,626**	11,436
Profit for the year	**4,194**	6,167
Other comprehensive income	**-**	-
Total comprehensive income	**4,194**	6,167
Dividends received during the year	**-**	-

Reconciliation of the above summarized financial information to the carrying amount of the interest in Zorah recognized in these consolidated financial statements:

	2013 AED'000	2012 AED'000 (Restated)
Net assets of the associate	**905,956**	903,396
Proportion of the Bank's ownership interest in Zorah	**22.7%**	22.7%
Carrying amount of the Bank's interest in Zorah	**205,652**	205,071

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

11 Investments in associates and joint ventures (continued)

(l) **Arady Development LLC ("Arady")**

	2013 AED'000	2012 AED'000 (Restated)
Assets	**1,886,410**	1,826,798
Liabilities	**(381,446)**	(1,031,784)
Net assets of the joint venture	**1,504,964**	795,014
Revenue	**-**	-
Loss for the year	**(30,156)**	(3,956)
Other comprehensive income	**-**	-
Total comprehensive loss	**(30,156)**	(3,956)
Dividends received during the year	**-**	-

Reconciliation of the above summarized financial information to the carrying amount of the interest in Arady recognized in these consolidated financial statements:

	2013 AED'000	2012 AED'000 (Restated)
Net assets of the joint venture	**1,504,964**	795,014
Proportion of the Bank's ownership interest in Arady	**50.0%**	50.0%
Carrying amount of the Bank's interest in Arady	**752,482**	397,507

(m) **Aggregate information of associates and joint ventures that are not individually material**

	2013 AED'000	2012 AED'000 (Restated)
The Bank's share of financial position:		
Assets	**1,208,484**	1,401,009
Liabilities	**(659,926)**	(383,278)
Net assets of the associates and joint ventures	**548,558**	1,017,731
The Bank Share of revenue & total comprehensive income:		
Revenue	**92,242**	80,541
Profit for the year	**37,027**	17,335
Other comprehensive loss	**(3,974)**	-
Total comprehensive income	**33,053**	17,335
Dividends received during the year	**23,285**	-

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

11 Investments in associates and joint ventures (continued)

(n) Movement of provision for impairment of investments in associates during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**33,495**	8,382
Charge for the year (note 41)	**29,552**	33,495
Derecognized investments in associates	**-**	(8,382)
Balance at 31 December	**63,047**	33,495

(o) The geographical analysis of the investment in associates and joint ventures net of provision for impairment as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Within the U.A.E.	**1,389,009**	1,060,057
Other G.C.C. Countries	**56,931**	53,628
Rest of the world	**431,889**	916,268
Total	**1,877,829**	2,029,953

(p) During the years ended 31 December 2013 and 2012, the Bank disposed of its interest in equity of certain associates and joint ventures. This resulted in the recognition of a gain/(loss) calculated as follows:

	2013 AED'000	2012 AED'000 (Restated)
Proceeds of disposal	**136,717**	29,109
Carrying value of the investments at the time of disposal	**(190,353)**	(24,318)
(Loss)/gain recognized (note 37)	**(53,636)**	4,791

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

12 Properties held for sale

(a) Properties held for sale represent properties in the U.A.E. and outside the U.A.E. 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 2013 and 2012 is as follows:

	Other real estate AED'000	Properties under construction AED'000	Land AED'000	Total AED'000
2013				
Balance at 1 January 2013	**915,832**	**841,542**	**240,000**	**1,997,374**
Additions	**194**	**102,580**	**4,391**	**107,165**
Disposals (note 36)	**(391,518)**	**(13,703)**	**-**	**(405,221)**
Reversal of impairment during the year (note 41)	**-**	**150,000**	**-**	**150,000**
Transfers	**754,117**	**(754,117)**	**-**	**-**
Foreign exchange effect	**(8,345)**	**-**	**-**	**(8,345)**
Balance at 31 December 2013	**1,270,280**	**326,302**	**244,391**	**1,840,973**
2012 (Restated)				
Balance at 1 January 2012 as previously Reported	504,472	105,284	-	609,756
Impact of adoption of IFRS 10 & 11	669,299	1,039,600	240,000	1,948,899
Balance at 1 January 2012 after adoption of IFRS 10 & 11 (Restated)	1,173,771	1,144,884	240,000	2,558,655
Additions	18,907	147,163	-	166,070
Disposals (note 36)	(268,641)	-	-	(268,641)
Impaired during the year (note 41)	(104,829)	31,660	-	(73,169)
Transferred to investment properties (note 13 (b))	(381,749)	-	-	(381,749)
Transfers	482,165	(482,165)	-	-
Foreign exchange effect	(3,792)	-	-	(3,792)
Balance at 31 December 2012	915,832	841,542	240,000	1,997,374

(c) The geographical analysis of properties held for sale as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Within the U.A.E.	**1,736,102**	1,877,754
Outside the U.A.E.	**104,871**	119,620
Total	**1,840,973**	1,997,374

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

13 Investment properties

(a) Movement in investment properties during the years ended 31 December 2013 and 2012 is as follows:

2013	Other real estate AED'000	Investment properties under construction AED'000	Land AED'000	Total AED'000
Cost:				
Balance at 1 January 2013	**904,269**	**670,397**	**1,147,763**	**2,722,429**
Additions	**1,410**	**14,813**	**-**	**16,223**
Disposal	**(107,101)**	**-**	**-**	**(107,101)**
Foreign exchange effect	**6,938**	**-**	**-**	**6,938**
Balance at 31 December 2013	**805,516**	**685,210**	**1,147,763**	**2,638,489**
Accumulated depreciation and impairment:				
Balance at 1 January 2013	**295,883**	**39,369**	**304,167**	**639,419**
Depreciation charged for the year	**36,198**	**-**	**-**	**36,198**
(Reversal of impairment)/impairment losses recognized, net (note 41)	**62,239**	**-**	**(37,735)**	**24,504**
Disposal	**(80,536)**	**-**	**-**	**(80,536)**
Foreign exchange effect	**5,590**	**-**	**-**	**5,590**
Balance at 31 December 2013	**319,374**	**39,369**	**266,432**	**625,175**
Carrying amount at 31 December 2013	**486,142**	**645,841**	**881,331**	**2,013,314**
2012 (Restated)				
Cost:				
Balance at 1 January 2012 (as previously reported)	1,081,049	450,266	472,072	2,003,387
Impact of adoption of IFRS 10 & 11	(19,314)	-	312,494	293,180
Balance at 1 January 2012 after IFRS 10 & 11(Restated)	1,061,735	450,266	784,566	2,296,567
Additions	337,974	32,815	23,386	394,175
Transferred from properties held for sale (note 13 (b))	69,763	187,316	339,811	596,890
Disposal	(27)	-	-	(27)
Eliminated on loss of control in subsidiaries (note 16 (j))	(585,266)	-	-	(585,266)
Foreign exchange effect	8,990	-	-	8,990
Other	11,100	-	-	11,100
Balance at 31 December 2012	904,269	670,397	1,147,763	2,722,429
Accumulated depreciation and impairment:				
Balance at 1 January 2012	218,182	-	-	218,182
Impact of adoption of IFRS 10 & 11	(6,064)	-	165,920	159,856
Balance at 1 January 2012 after IFRS 10 & 11(Restated)	212,118	-	165,920	378,038
Depreciation charged for the year	31,338	-	-	31,338
(Reversal of impairment)/impairment losses recognized, net (note 41)	26,601	-	(12,641)	13,960
Foreign exchange effect	942	-	-	942
Transferred from properties held for sale (note 13 (b))	24,884	39,369	150,888	215,141
Balance at 31 December 2012	295,883	39,369	304,167	639,419
Carrying amount at 31 December 2012	608,386	631,028	843,596	2,083,010

13 Investment properties (continued)

(b) Transfer from properties held for sale during the year ended 31 December 2012 is as follows:

	2012 AED'000 (Restated)
Other real estate	69,763
Investment properties under construction	187,316
Land	339,811
Total cost (note 13 (a))	596,890
Accumulated impairment (note 13 (a))	(215,141)
Total carrying amount (note 12 (b))	381,749

(c) The geographical analysis of investment properties as of 31 December 2013 and 2012 is as follows:

2013	**Other real estate AED'000**	**Properties under construction AED'000**	**Land AED'000**	**Total AED'000**
Cost:				
Within the U.A.E.	**385,447**	**685,210**	**890,580**	**1,961,237**
Outside the U.A.E.	**422,269**	**-**	**257,182**	**679,451**
Total cost	**807,716**	**685,210**	**1,147,762**	**2,640,688**
Accumulated depreciation and impairment				**(627,374)**
Carrying amount as at 31 December 2013				**2,013,314**
2012 (Restated)				
Cost:				
Within the U.A.E.	382,070	670,397	890,580	1,943,047
Outside the U.A.E.	526,599	-	257,182	783,781
Total cost	908,669	670,397	1,147,762	2,726,828
Accumulated depreciation and impairment				(643,818)
Carrying amount as at 31 December 2012				2,083,010

(d) The fair value of the Bank's investment properties as at 31 December 2013 is AED 3.2 billion (2012 (Restated): AED 3.2 billion). The fair value is mainly based on observable market inputs (i.e. level 2).

The Bank has carried out internal and external valuation of these properties as at 31 December 2013 and 2012. The valuations are carried out by professional valuers not related to the Bank who holds recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The valuations were based on comparable transaction method and 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.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

13 Investment properties (continued)

(e) Investment properties include properties amounting AED 376.6 million (2012 (Restated): AED 433.2 million) have been mortgaged by one of the Bank's entities as a security financing obligation to another bank.

14 Receivables and other assets

(a) The analysis of the Bank's receivables and other assets as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Receivables on sale of investment properties, net (note 14 (d))	**2,339,881**	2,339,881
Due from customers (note 14 (c))	**895,785**	889,000
Acceptances	**858,556**	679,425
Trade receivables	**227,413**	256,854
Other income receivable	**138,803**	165,650
Clearing receivables	**88,154**	74,168
Prepaid expenses	**82,752**	77,276
Advances to contractors	**38,781**	18,169
Due from employees	**31,778**	31,692
Fair value of Islamic derivatives (note 47 (a))	**21,041**	41,288
Deferred tax asset (note 22 (b))	**9,691**	9,749
Inventories	**2,147**	15,882
Other	**351,666**	372,487
	5,086,448	4,971,521
Provision for impairment (note 14(b))	**(129,074)**	(79,563)
Total	**4,957,374**	4,891,958

(b) Movement of provision for impairment during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**79,563**	51,203
Charged during the year	**74,647**	51,561
Releases during the year	**(6,215)**	(7,154)
Other movement	**(18,921)**	-
Write-off	**-**	(16,047)
Balance at 31 December	**129,074**	79,563

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

14 Receivables and other assets (continued)

(c) Due from customers represent overdrawn current accounts and other accounts that do not meet the definition of Islamic financing and investing assets. The balances are stated net of provision for impairment amounting to AED 473.0 million (2012 (Restated): AED 473.0 million). The Bank holds collaterals amounting to AED 1,250 million (2012 (Restated): AED 951.0 million) against these accounts.

(d) The Bank entered into sale and purchase agreements to sell investment properties in prior years. The salient terms and conditions of the sales and purchase agreements 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.

Receivables on sale of investment properties are stated net of provision for impairment amounting to AED 101.2 million (2012 (Restated): AED 49.1 million).

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

15 Property, plant and equipment

2013

	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 2013 (Restated)	474,695	74,871	380,796	469,111	3,476	30,672	1,433,621
Additions	3,375	-	7,451	9,700	582	49,242	70,350
Disposals	(10,888)	(63,695)	(13,623)	(15,875)	(1,977)	-	(106,058)
Written off	-	-	(96)	-	-	-	(96)
Transfers	145,037	8,868	(135,732)	20,529	-	(38,702)	-
Exchange adjustments	(149)	(348)	(5,759)	(3,363)	(83)	(223)	(9,925)
Balance at 31 December 2013	612,070	19,696	233,037	480,102	1,998	40,989	1,387,892
Accumulated depreciation:							
Balance at 1 January 2013 (Restated)	88,683	58,111	322,630	371,944	2,776	-	844,144
Charge for the year	27,047	8,426	21,313	41,755	323	-	98,864
Disposals	(2,191)	(53,804)	(13,358)	(15,523)	(1,971)	-	(86,847)
Written off	-	-	(56)	-	-	-	(56)
Transfers	139,134	7,094	(144,971)	(1,257)	-	-	-
Exchange adjustments	-	(169)	(2,987)	(1,974)	(51)	-	(5,181)
Balance at 31 December 2013	252,673	19,658	182,571	394,945	1,077	-	850,924
Carrying amount							
Balance at the end of the year	359,397	38	50,466	85,157	921	40,989	536,968

* 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 2013 (continued)

15 Property, plant and equipment (continued)

2012 (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 2012 (as previously reported)	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Impact of adoption of IFRS 10 & 11	31,423	(10,501)	(5,265)	22,748	1,747	1,580	41,732
Balance at 1 January 2012 (Restated)	447,481	73,562	378,005	444,639	5,377	24,351	1,373,415
Additions	5,645	1,642	8,822	7,250	329	56,892	80,580
Disposals	(83)	(3)	(2,251)	(2,246)	(2,157)	-	(6,740)
Written off	-	-	(4,446)	(208)	-	-	(4,654)
Transfers	21,793	-	5,673	22,938	-	(50,404)	-
Exchange adjustments	(141)	(330)	(5,007)	(3,262)	(73)	(167)	(8,980)
Balance at 31 December 2012	474,695	74,871	380,796	469,111	3,476	30,672	1,433,621
Accumulated depreciation:							
Balance at 1 January 2012 (as previously reported)	65,247	64,253	305,343	312,549	2,881	-	750,273
Impact of adoption of IFRS 10 & 11	(578)	(9,180)	(5,385)	17,513	1,654	-	4,024
Balance at 1 January 2012 (Restated)	64,669	55,073	299,958	330,062	4,535	-	754,297
Charge for the year	24,041	3,171	31,149	45,075	399	-	103,835
Disposals	(27)	(2)	(1,964)	(1,954)	(2,105)	-	(6,052)
Written off	-	-	(4,232)	(163)	-	-	(4,395)
Exchange adjustments	-	(131)	(2,281)	(1,076)	(53)	-	(3,541)
Balance at 31 December 2012	88,683	58,111	322,630	371,944	2,776	-	844,144
Carrying amount							
Balance at the end of the year	386,012	16,760	58,166	97,167	700	30,672	589,477

* 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 2013 (continued)

16 Subsidiaries

(a) The Bank's material interest held directly or indirectly in the subsidiaries is as follows:

	Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion and ownership interest and voting power held by the Bank	
				2013	2012
1.	DIB Capital Limited	Investments and financial services	DIFC, 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. (note 16 (d))	Financing and investment	U.A.E	**86.5%**	58.3%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	**95.5%**	95.5%
5.	Deyaar Development P.J.S.C. (note 2 (a))	Real estate development	U.A.E	**44.9%**	44.9%
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.	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.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	**100.0%**	100.0%
17.	Omega Engineering L.L.C. (note 16(j))	Real estate	U.A.E	**-**	100.0%

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

16 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 the related transactions.

	Name of SPV	Principal activity	Place of incorporation and operation	Proportion and ownership interest and voting power held by the Bank	
				2013	2012
18.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
19.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
20.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
21.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
22.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
23.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
24.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
25.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
26.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
27.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
28.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
29.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
30.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
31.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
32.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
33.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
34.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
35.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%

(c) In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 7, 11, 12, 34 and 35 are also beneficially held by the Bank through nominee arrangements.

(d) On 3 January 2013, the Bank's Board of Directors announced its intention to acquire 100% of Tamweel P.J.S.C. ("Tamweel") shares by offering DIB shares in exchange for Tamweel shares to the non-controlling shareholders. The Bank obtained the approval of its shareholders in the Extraordinary Annual General Meeting conducted on 4 March 2013 and subsequently obtained all required approvals from the regulatory authorities, including The U.A.E. Ministry of Finance, Securities and Commodities Authority of the U.A.E., the U.A.E. Central Bank and Dubai Financial Market.

During the year ended 31 December 2013, the Bank issued 156.7 million shares at a par value of AED 1 per share to the non-controlling interest of Tamweel, who accepted the Bank's offer of swapping 10 new DIB shares for every 18 Tamweel shares. This transaction increased the Bank's percentage of equity in Tamweel to 86.5% and the difference of AED 327.0 million between the fair value of the 156.7 million DIB shares and the carrying amount of non-controlling interest acquired was recognized in retained earnings.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

16 Subsidiaries (continued)

(e) Non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Bank that have material non-controlling interests:

Name of subsidiary	Proportion of ownership interests and voting rights held by the non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	2013 AED'000	2012 AED'000	**2013 AED'000**	2012 AED'000	**2013 AED'000**	2012 AED'000
1. Tamweel P.J.S.C., U.A.E.	**13.5%**	41.7%	**19,238**	29,719	**312,503**	965,971
2. Deyaar Development P.J.S.C. (note 16(f))	**55.1%**	55.1%	**85,216**	21,291	**1,734,230**	1,633,841
3. Individually immaterial subsidiaries with non-controlling interests			**2,636**	12,362	**3,771**	5,321
Total			**107,090**	63,372	**2,050,504**	2,605,133

(f) Deyaar Development P.J.S.C. ("Deyaar") is a subsidiary of the Bank even though the Bank has only 44.9% ownership interest and has only 44.9% of the voting rights in Deyaar. The Bank has held its 44.9% ownership since Deyaar's listing and the remaining 55.1% of the ownership interests are held by numerous shareholders that are unrelated to the Bank, none individually holding more than 5%.

The Bank's management assessed whether or not the Bank has control over Deyaar based on whether the Bank has practical ability to direct the relevant activities of Deyaar unilaterally. In making their judgement, the management considered the Bank's absolute size of holding in Deyaar and the relative size dispersion of the holdings of other shareholders. After assessment, the management concluded that the Bank has a sufficiently dominant voting power to direct the relevant activities of Deyaar and therefore the Bank has control over Deyaar.

(g) Summarised financial information in respect of each of the Bank's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

16 Subsidiaries (continued)

(h) **Tamweel P.J.S.C. summarised financial information for the years ended 31 December 2013 and 2012**

	2013 AED'000	2012 AED'000 (Restated)
Statement of financial position		
Islamic financing and investing assets, net	**7,676,168**	9,324,190
Other	**671,701**	1,622,676
Total assets	**8,347,869**	10,946,866
Customers' deposits	**-**	1,478,680
Due to banks and financial institutions	**4,650,000**	3,498,750
Sukuk financing instruments	**1,102,500**	3,297,650
Other	**248,340**	358,082
Total liabilities	**6,000,840**	8,633,162
Equity	**2,347,029**	2,313,704
Dividends paid to non-controlling interests	**20,876**	20,876
Statement of comprehensive income		
Total income	**587,336**	644,364
Total expenses	**(290,724)**	(270,572)
Depositors' and sukukholders' share of profit	**(194,084)**	(302,609)
Profit for the year	**102,528**	71,183
Other comprehensive income	**-**	-
Total comprehensive income	**102,528**	71,183
Statement of cash flows		
Net cash flows (used in)/generated from operating activities	**(952,670)**	121,886
Net cash flows generated from/(used in) investing activities	**7,027**	(56,656)
Net cash flows generated from financing activities	**-**	859,949
Net cash flows (used in)/generated during the year	**(945,643)**	925,179

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

16 Subsidiaries (continued)

(i) **Deyaar Development P.J.S.C. summarised financial information for the years ended 31 December 2013 and 2012***

	2013 AED'000	2012 AED'000 (Restated)
Statement of financial position		
Investment in associates and joint ventures	**984,943**	1,163,148
Properties held for sale	**1,670,962**	1,820,278
Investment properties	**265,521**	215,917
Receivables and other assets	**1,999,737**	1,990,369
Other	**458,198**	259,825
Total assets	**5,379,361**	5,449,537
Due to banks and financial institutions	**826,389**	887,450
Payables and other liabilities	**1,408,402**	1,679,302
Total liabilities	**2,234,791**	2,566,752
Equity	**3,144,570**	2,882,785
Dividends paid to non-controlling interests	**-**	-
Statement of comprehensive income		
Total income	**281,483**	275,315
Total expenses	**(87,863)**	(189,946)
Depositors' and sukukholders' share of profit	**(24,927)**	(38,205)
Share of loss from associates and joint ventures	**(14,176)**	(8,559)
Profit for the year	**154,517**	38,605
Other comprehensive income	**26,861**	5,780
Total comprehensive income	**181,378**	44,385
Statement of cash flows		
Net cash flows generated from operating activities	**255,384**	4,811
Net cash flows generated from investing activities	**140,030**	6,625
Net cash flows generated from/(used in) financing activities	**54,550**	(73,337)
Net cash flows generated/(used in) during the year	**449,964**	(61,901)

* Adjustments were made to the above financial information to bring the subsidiary's accounting policies in line with those used by the Bank.

16 Subsidiaries (continued)

(j) During the years ended 31 December 2013 and 2012, the Bank has lost control over certain subsidiaries. Below is the analysis of assets and liabilities of subsidiaries over which control was lost at the date of derecognition:

	2013 AED'000	2012 AED'000 (Restated)
Investment properties (note 13 (a))	**-**	585,266
Other	**15,536**	179,211
Total assets	**15,536**	764,477
Due to banks and financial institutions	**-**	(235,744)
Other	**(55,770)**	(166,697)
Total liabilities	**(55,770)**	(402,441)
Non-controlling interest	**-**	(180,605)
Net (liabilities)/assets disposed of (note 16 (k))	**(40,234)**	181,431

(k) Gain recognized on loss of control of subsidiaries during the years ended 31 December 2013 and 2012:

	2013 AED'000	2012 AED'000 (Restated)
(Net liabilities)/fair value of investments retained	**(12,555)**	184,806
Less: Net liabilities settled/(assets disposed of) (note 16 (j))	**40,234**	(181,431)
Gain recognized (note 37)	**27,679**	3,375

17 Customers' deposits

(a) The analysis of the Bank's customers' deposits as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Current accounts	**20,606,115**	17,802,921
Saving accounts	**12,927,264**	11,264,634
Investment deposits	**45,126,102**	37,310,636
Margin accounts	**226,332**	169,011
Depositors' investment risk reserve (note 17 (c))	**105,396**	64,748
Depositors' share of profit payable (note 17 (d))	**69,332**	113,573
Total	**79,060,541**	66,725,523

17 Customers' deposits (continued)

(b) Analysis of customers' deposits by geography as at 31 December 2013 and 2012 are as follows:

	2013 AED'000	2012 AED'000 (Restated)
Within the U.A.E.	**75,591,875**	64,139,934
Outside the U.A.E.	**3,468,666**	2,585,589
Total	**79,060,541**	66,725,523

(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 Bank's Fatwa and Sharia'a Supervisory Board. Zakat on depositors' investment risk reserve is included under Zakat payable and is deducted from the depositors' investment risk reserve balance.

Movement of depositors' investment risk reserve during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**64,748**	33,157
Zakat for the year (note 23)	**(2,788)**	(1,713)
Net transfer from depositors' share of profit during the year (note 17 (d))	**43,436**	33,304
Balance at 31 December (note 17 (a))	**105,396**	64,748

(d) Movement of depositors' share of profit payable during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**113,573**	158,522
Depositors' share of profit for the year (note 42)	**453,300**	612,542
Net transfer to depositors' investment risk reserve (note 17 (c))	**(43,436)**	(33,304)
Less: amount paid during the year	**(454,105)**	(624,187)
Balance at 31 December (note 17 (a))	**69,332**	113,573

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

18 Due to banks and financial institutions

(a) The analysis of the Bank's due to banks and financial institutions as at 31 December 2013 and 2012 is as follows:

	2013 **AED'000**	2012 AED'000 (Restated)
Current accounts	**177,616**	344,963
Investment deposits	**2,452,390**	6,323,037
Total	**2,630,006**	6,668,000

(b) The geographical analysis of the Bank's due to banks and financial institutions as at 31 December 2013 and 2012 is as follows:

	2013 **AED'000**	2012 AED'000 (Restated)
Within the U.A.E.	**1,666,936**	6,031,640
Outside the U.A.E.	**963,070**	636,360
Total	**2,630,006**	6,668,000

19 Sukuk financing instruments

(a) The analysis of the Bank's sukuk financing instruments as at 31 December 2013 and 2012 is as follows:

	2013 **AED'000**	2012 AED'000 (Restated)
Sukuk financing instruments issued by the Bank (note 19 (b))	**1,836,500**	1,836,500
Sukuk financing instruments issued by a subsidiary (note 19 (c))	**971,103**	2,837,460
Total	**2,807,603**	4,673,960

(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 buy these assets at the exercise price from the Issuer.

These sukuk financing instruments mature in May 2017 and is expected to pay profit to the investors semi-annually based on 6 months LIBOR + 3.65% per annum at the time of issuance.

19 Sukuk financing instruments (continued)

(c) In 2008, a subsidiary of the Bank issued Sharia'a compliant, convertible sukuk for a total value of USD 300 million (AED 1,101.9 million) at an expected profit rate of 4.31% per annum. Realised profit on these sukuk was paid quarterly in arrears.

The sukuk was listed on NASDAQ Dubai, U.A.E. and was redeemed fully in cash on maturity in January 2013.

In 2008, another Sharia'a compliant, non-convertible sukuk was issued in the form of Trust Certificates for the total value of AED 1,100 million at an expected profit rate of 3 months EIBOR + 225 basis points per annum. Realised profit on these sukuk was paid quarterly in arrears. These sukuk were listed on NASDAQ Dubai, U.A.E. and redeemed fully in cash on maturity in July 2013.

In 2012, a subsidiary issued Sharia'a Compliant Trust Certificates of US$ 300 million (AED 1,101.9 million) at an expected profit rate of 5.15% per annum. Realised profit on these certificates is payable semi-annually in arrears. The certificates are listed on the Irish Stock Exchange, Ireland and mature in 2017.

20 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.

(b) During the year ended 31 December 2013, the Bank repaid Ministry of Finance medium term wakala finance in full before its contractual maturity in December 2016 after obtaining the necessary regulatory and government approvals.

21 Payables and other liabilities

(a) The analysis of the Bank's payables and other liabilities as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Transaction amanat accounts (note 21(b))	**7,293,849**	69,157
Trade payables	**1,280,192**	1,251,575
Acceptances payable	**858,556**	679,425
Bankers cheques	**381,903**	239,282
Investments related payable	**293,585**	293,585
Payable for properties	**215,687**	215,382
Vendor payable for Islamic financing and investing assets	**170,957**	117,291
Provision for employees' end-of-service benefits (note 21 (d))	**154,050**	131,666
Sundry deposits	**123,380**	166,180
Clearing payable	**99,708**	70,125
Depositors' and sukuk holders' share of profit payable (note 21(c))	**97,848**	143,915
Accruals and other provisions	**97,131**	267,665
Deferred income	**71,156**	17,783
Payable to contractors	**66,097**	154,083
Unclaimed dividends	**35,540**	35,610
Fund transfer and remittances	**19,606**	19,921
Fair value of Islamic derivative liabilities (note 47 (a))	**10,136**	27,963
Directors' remuneration payable	**5,350**	5,350
Provision for taxation (note 22 (a))	**2,239**	3,590
Other	**1,005,541**	1,025,152
Total	**12,282,511**	4,934,700

(b) Transaction Amanats accounts represent escrow accounts held and maintained by the Bank on behalf of customers where the Bank acts as an agent in certain transactions.

(c) Movement of the depositors' and sukuk holders share of profit payable during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**143,915**	100,936
Wakala and other investment deposits from banks (note 42)	**439,144**	557,918
Sukukholders' accrued/realised profit on sukuk financing instruments	**161,387**	182,039
Paid during the year	**(646,598)**	(696,978)
Balance at 31 December (note 21 (a))	**97,848**	143,915

(d) Movement of provision for employees' end-of-service benefits during the years ended 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**131,666**	108,748
Charged during the year (note 38)	**22,945**	23,747
Paid during the year	**(561)**	(829)
Balance at 31 December (note 21 (a))	**154,050**	131,666

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

22 Taxation

(a) Provision for taxation movement during the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
	AED'000	AED'000
		(Restated)
Balance at 1 January	**3,590**	5,346
Charged during the year (note 22 (c))	**4,685**	3,941
Paid during the year	**(6,294)**	(5,652)
Foreign exchange effect	**258**	(45)
Balance at 31 December (note 21 (a))	**2,239**	3,590

(b) Deferred tax asset movement during the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
	AED'000	AED'000
		(Restated)
Balance at 1 January	**9,749**	19,297
Reversed/(charged) during the year (note 22 (c))	**770**	(8,860)
Foreign exchange effect	**(828)**	(688)
Balance at 31 December (note 14 (a))	**9,691**	9,749

(c) The analysis of income tax expense charged during the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
	AED'000	AED'000
		(Restated)
Current taxation (note 22(a))	**4,685**	3,941
Deferred taxation (note 22(b))	**(770)**	8,860
Total	**3,915**	12,801

23 Zakat payable

The analysis of Zakat payable by the Bank on shareholders' behalf for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
	AED'000	AED'000
		(Restated)
Zakat charged to equity attributable to shareholders of the Parent	**163,995**	163,541
Zakat adjustment related to previous years	**-**	(2,446)
Zakat accounted and paid by investees	**(1,195)**	(1,683)
Shareholders' Zakat for the year payable by the Bank	**162,800**	159,412
Zakat adjustment related to previous years	**-**	2,447
Net Zakat payable by the Bank on shareholders' behalf	**162,800**	161,859
Zakat on depositors' investment risk reserve (note 17 (c))	**2,788**	1,713
Total Zakat payable	**165,588**	163,572

24 Share capital

As at 31 December 2013, 3,953,751,107 authorised ordinary shares of AED 1 each (2012 (Restated): 3,797,054,290 ordinary shares of AED 1 each) were fully issued and paid up.

25 Tier 1 sukuk

In March 2013, the Bank through a Shari'a compliant sukuk arrangement issued Tier 1 sukuk amounting to USD 1,000 million (AED 3,673 million) at a par value of USD 1,000 (AED 3,673) per sukuk. Tier 1 sukuk was issued as approved by the Bank's shareholders in the Extraordinary General Meeting conducted on 4 March 2013.

Tier 1 sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 sukuk is listed on the Irish Stock Exchange and callable by the Bank after the six-year period ending in March 2019 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions.

The net proceeds of Tier 1 sukuk are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool.

Tier 1 sukuk bears an expected profit rate of 6.25% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 6 year U.S. Mid Swap Rate plus initial margin of 495.5 basis points.

At the Issuer's sole discretion, it may elect not to make any Mudaraba profit distributions expected and the event is not considered an event of default. In such event, the Mudaraba profit will not be accumulated. If the Issuer makes a non-payment election or a non-payment event occurs, then the Bank will not (a) 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 the Bank, or (b) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire ordinary shares issued by the Bank.

26 Other reserves and treasury shares

(a) The movement of the other reserves during the years ended 31 December 2013 and 2012 is as follows:

	Statutory reserve AED'000	General reserve AED'000	Donated land reserve AED'000	Additional paid in capital AED'000	Treasury shares AED'000	Total AED'000
Balance at 1 January 2012 (Restated)	2,731,879	2,350,000	267,085	-	-	5,348,964
Balance at 31 December 2012 (Restated)	2,731,879	2,350,000	267,085	-	-	5,348,964
Acquisition of non-controlling interest of Tamweel P.J.S.C. (note 16 (d))	**-**	**-**	**-**	**159,832**	**(10,884)**	**148,948**
Treasury shares	-	-	-	-	(2,216)	(2,216)
Balance at 31 December 2013	**2,731,879**	**2,350,000**	**267,085**	**159,832**	**(13,100)**	**5,495,696**

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

26 Other reserves (continued)

(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.

(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 lands which have been allocated for the sole benefit of the shareholders of the Bank. Such lands are included in investment properties as they are held for capital appreciation purposes.

(e) Treasury shares:

During the year ended 31 December 2013, the Bank acquired 1,603,589 treasury shares at AED 2.2 million.

In addition, 6,046,042 treasury shares amounting to AED 10.9 million were acquired by the Bank as a result of the Bank's acquisition of a subsidiary's non-controlling interests during the year ended 31 December 2013 (note 16 (d)).

27 Investments fair value reserve

	2013 AED'000	2012 AED'000 (Restated)
Balance at 1 January	**(817,913)**	(831,849)
Impact of adoption of IFRS 10 & 11	**-**	2,217
Net unrealised gain on other investments carried at FVTOCI	**260,263**	11,719
Realized gain transferred to retained earnings upon investment disposal	**(6,200)**	-
Balance at 31 December	**(563,850)**	(817,913)

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.

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

29 Dividends paid and proposed

(a) The Board of Directors has proposed 25% cash dividend at their meeting held on 29 January 2014.

(b) For the year ended 31 December 2012, the shareholders approved and paid a cash dividend of AED 0.15 per share (total dividend AED 569.56 million) at the Annual General Meeting held on 4 March 2013. 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.

30 Contingent liabilities and commitments

(a) The analysis of contingent liabilities and commitments as at 31 December 2013 and 2012 is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Contingent liabilities:		
Letters of guarantee	**6,986,202**	7,828,148
Letters of credit	**3,313,044**	1,962,295
Total contingent liabilities	**10,299,246**	9,790,443
Commitments:		
Capital expenditure commitments	**903,605**	1,082,813
Irrevocable undrawn facilities commitments	**13,850,038**	10,393,008
Total commitments	**14,753,643**	11,475,821
Total contingent liabilities and commitments	**25,052,889**	21,266,264

(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 2013 (continued)

31 Income from Islamic financing and investing assets

	2013 AED'000	2012 AED'000 (Restated)
Islamic financing assets		
Vehicles murabahat	**350,508**	382,178
Commodities murabahat	**249,213**	265,498
Real estate murabahat	**162,097**	173,638
International murabahat	**12,342**	7,843
Total murabahat income	**774,160**	829,157
Home finance Ijarah	**585,010**	616,161
Other Ijarah	**541,620**	487,095
Salam finance	**611,116**	436,718
Istisna'a	**219,438**	318,122
Total income from Islamic financing assets	**2,731,344**	2,687,253
Islamic Investing assets		
Musharakat	**321,200**	356,655
Mudarabat	**166,550**	149,429
Wakalat	**129,336**	73,059
Total income from Islamic investing assets	**617,086**	579,143
Total income from Islamic financing and investing assets	**3,348,430**	3,266,396

Income from financing and investing assets is presented net of forfeited income of AED 3.4 million (2012 (Restated): AED 2.4 million).

32 Income from International murabahat and wakala, short term

	2013 AED'000	2012 AED'000 (Restated)
Income from international murabahat with central bank of the U.A.E.	**65,008**	33,582
Income from investment and wakala deposits	**22,708**	19,891
Income from international murabahat from banks and financial institutions	**7,958**	4,684
Total	**95,674**	58,157

33 Gain from other investments at fair value, net

	2013 AED'000	2012 AED'000 (Restated)
Dividend income and other returns from investments measured at FVTOCI	**20,210**	19,775
Realized gain on disposal of investments measured at FVTPL	**1,677**	1,514
Dividend income from investments designated at FVTPL	**64**	1,258
Unrealized gain/(loss) on revaluation of investments measured at FVTPL	**15**	(64)
Total	**21,966**	22,483

Dividend income is presented net of forfeited income of AED 2.9 million (2012 (Restated): AED 4.2 million).

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

34 Commissions, fees, and foreign exchange income

	2013 AED'000	2012 AED'000 (Restated)
Trade related commission and fees	**283,515**	218,211
Foreign exchange income	**70,186**	75,014
Asset and wealth management related fees	**52,189**	97,924
Fair value of Islamic derivatives	**4,293**	2,779
Other commissions and fees	**388,671**	386,086
Total	**798,854**	780,014

35 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 2013 and 2012.

36 Income from properties held for sale, net

	2013 AED'000	2012 AED'000 (Restated)
Sales proceeds	**527,438**	292,076
Less: cost of sale (note 12(b))	**(405,221)**	(268,642)
Net gains from sale of properties	**122,217**	23,434
Income from cancellation of properties sale contracts	**110,947**	193,958
Total	**233,164**	217,392

37 Other income

	2013 AED'000	2012 AED'000 (Restated)
Realized gain on disposal of investments in Islamic sukuk	**67,122**	37,058
Services income, net	**25,456**	62,991
(Loss)/gain on disposal of associates and joint ventures (note 11 (p))	**(53,636)**	4,791
Net (loss)/gain on sale of property, plant and equipment	**(7,289)**	351
Gain on sale of subsidiary (note 16 (k))	**27,679**	3,375
Other	**6,193**	66,248
Total	**65,525**	174,814

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

38 Personnel expenses

	2013 AED'000	2012 AED'000 (Restated)
Salaries, wages and other benefits	**1,028,214**	941,965
Staff terminal benefits (note 21 (d))	**22,945**	23,747
Share based payments	**-**	551
Total	**1,051,159**	966,263

39 General and administrative expenses

	2013 AED'000	2012 AED'000 (Restated)
Premises and equipment maintenance costs	**94,919**	131,902
Administrative expenses	**96,709**	82,905
Rental charges under operating leases	**72,241**	71,597
Communication costs	**72,529**	71,617
Printing and stationery	**7,631**	7,024
Other operating expenses	**158,327**	153,391
Total	**502,356**	518,436

40 Impairment loss on financial assets, net

	2013 AED'000	2012 AED'000 (Restated)
Provision for Islamic financing and investing assets charged (note 8 (b))	**1,153,085**	1,163,674
Provision for Islamic financing and investing assets released (note 8 (b))	**(301,455)**	(279,280)
Net provision for receivables and other assets (note 14 (b))	**68,432**	44,407
Other provisions	**-**	43,832
Total	**920,062**	972,633

41 (Reversal of impairment)/impairment losses on non-financial assets, net

	2013 AED'000	2012 AED'000 (Restated)
(Reversal of)/additional impairment of properties held for sale (note 12 (b))	**(150,000)**	73,169
Impairment of investment properties (note 13 (a))	**24,504**	13,960
Impairment of investment in associates and joint ventures (note 11(n))	**29,552**	33,495
Total	**(95,944)**	120,624

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

42 Depositors' and sukuk holders' share of profit

	2013 AED'000	2012 AED'000 (Restated)
Investment and savings deposits from customers (note 17 (d))	**453,300**	612,542
Wakala and other investment deposits from banks (note 21 (c))	**439,144**	557,918
Sukukholders' accrued/realised profit on sukuk financing instruments (note 21 (c))	**161,387**	182,039
Total	**1,053,831**	1,352,499

43 Basic and diluted earnings per share

(a) Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to owners of the Parent, net of directors' remuneration and profit attributable to Tier 1 sukukholders by the weighted average number of shares outstanding during the year as follows:

	2013 AED'000	2012 AED'000 (Restated)
Profit for the year attributable to owners of the Parent (AED'000)	**1,610,939**	1,150,072
Profit attributable to Tier 1 sukukholders	**(114,781)**	-
Directors' remuneration (AED'000)	**(5,350)**	(5,350)
	1,490,808	1,144,722
Weighted average number of shares outstanding during the year ('000)	**3,894,475**	3,797,054
Basic and diluted earnings per share (AED per share)	**AED 0.38**	AED 0.30

(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.

44 Cash and cash equivalents

	2013 AED'000	2012 AED'000 (Restated)
Cash and balances with the central banks (note 6 (a))	**22,712,964**	15,473,999
Due from banks and financial institutions (note 7 (a))	**9,606,168**	3,293,059
	32,319,132	18,767,058
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(14,950,000)**	(8,218,972)
Balance at 31 December	**17,369,132**	10,548,086

45 Related party transactions

(a) The Bank enters into 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) As at 31 December 2013, the major shareholder of the Bank is Investment Corporation of Dubai ("ICD"), a company in which the Government of Dubai is the majority shareholder.

Deposits from and financing to Investment Corporation of Dubai related-entities, other than those that have been individually disclosed below, amount to 5.34% of the Bank's total customers' deposits (2012 (Restated): 3.1%), 10.5% of the Bank's total Islamic financing and investing assets (2012 (Restated): 10.6%), and 22.8% of the Bank's total due from banks and financial institutions (2012 (Restated): 49.7%). These entities are independently run business entities, and all financial dealings with the Bank are on an arms-length basis.

(c) 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.

(d) The significant balances outstanding at 31 December 2013 and 2012 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 and joint ventures AED'000**	**Total AED'000**
2013				
Islamic financing and investing assets	**1,591,634**	**50,921**	**5,964**	**1,648,519**
Customers' deposits	**3,021,695**	**40,955**	**14,883**	**3,077,533**
Income from Islamic financing and investing assets	**48,441**	**3,847**	**2,261**	**54,549**
Depositors' share of profits	**73,405**	**170**	**-**	**73,575**
Contingent liabilities	**-**	**6**	**14,120**	**14,126**
2012 (Restated)				
Islamic financing and investing assets	1,469,201	61,038	58,393	1,588,632
Customers' deposits	1,884,551	83,198	7,831	1,975,580
Income from Islamic financing and investing assets	42,608	5,383	6,356	54,347
Depositors' share of profits	54,646	1,982	-	56,628
Contingent liabilities	-	6	14,078	14,084

(e) No impairment allowances have been recognized against Islamic financing and investing assets extended to related parties or contingent liabilities issued in favor of related parties during the years ended 31 December 2013 and 2012.

(f) The compensation paid to key management personnel of the Bank is as follows:

	2013 AED'000	2012 AED'000 (Restated)
Salaries and other benefits, including directors' remuneration	**22,214**	20,779
Employee terminal benefits	**3,999**	3,233

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

46 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 2013 (continued)

46 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 2013 and 2012:

	Retail and business banking		Corporate and investment banking		Real estate		Treasury		Other		Total	
	2013 AED'000	2012 AED'000 (Restated)	**2013 AED'000**	2012 AED'000 (Restated)	**2013 AED'000**	2012 AED'000 (Restated)	**2013 AED'000**	2012 AED'000 (Restated)	**2013 AED'000**	2012 AED'000 (Restated)	**2013 AED'000**	2012 AED'000 (Restated)
Net operating revenue *	**2,067,130**	1,897,556	**1,186,246**	1,090,959	**(2,717)**	49,122	**499,864**	504,118	**406,039**	336,762	**4,156,562**	3,878,517
Share of profit /(loss) of associates	**-**	-	**92,253**	69,416	**(14,176)**	(8,559)	**-**	-	**-**	-	**78,077**	60,857
Operating expense	**(1,178,413)**	(1,086,342)	**(141,316)**	(139,149)	**(231,675)**	(257,850)	**(19,974)**	(21,745)	**(117,199)**	(114,786)	**(1,688,577)**	(1,619,872)
Impairment loss	**(315,482)**	(286,439)	**(560,138)**	(750,177)	**135,497**	(50,128)	**-**	-	**(83,995)**	(6,513)	**(824,118)**	(1,093,257)
Profit for the year before income tax	**573,235**	524,775	**577,045**	271,049	**(113,071)**	(267,415)	**479,890**	482,373	**204,845**	215,463	**1,721,944**	1,226,245
Income tax expense											**(3,915)**	(12,801)
Profit for the year											**1,718,029**	1,213,444

* 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 2013 (continued)

46 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	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	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	**26,025,468**	25,178,722	**34,891,639**	35,060,170	**7,892,443**	7,710,077	**21,053,721**	12,511,922	**23,425,167**	18,150,321	**113,288,438**	98,611.212
Segment liabilities and equity	**52,181,790**	48,779,669	**40,633,302**	21,469,305	**4,699,006**	4,280,950	**6,480,665**	12,008,362	**9,293,675**	12,072,926	**113,288,438**	98,611,212

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

46 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 2013 and 2012:

	Gross income from external customers *		**Non-current assets ****	
	2013	2012	**2013**	2012
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Within the U.A.E.	**4,938,901**	4,905,170	**1,965,331**	2,030,877
Outside the U.A.E.	**271,493**	325,846	**584,950**	641,610
Total	**5,210,394**	5,231,016	**2,550,281**	2,672,487

* Gross income from external customers geographical analysis is based on the Bank's operating centres and subsidiaries locations.

** Non-current assets exclude financial instruments, investments in associates and joint ventures and deferred tax assets.

Revenue from major products and services

(i) Revenue from major products and services are disclosed in notes 31, 32, 33, 34, 35 and 36 to the consolidated financial statements.

47 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.

47 Islamic derivatives financial instruments (continued)

	Positive fair value (note 14) AED'000	Negative fair value (note 21) 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
2013								
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	**10,522**	**10,136**	**9,704,723**	**5,343,890**	**4,360,833**	**-**	**-**	**-**
Islamic profit rate swaps	**10,519**	**-**	**5,379,778**	**-**	**-**	**3,041,478**	**1,673,300**	**665,000**
Total	**21,041**	**10,136**	**15,084,501**	**5,343,890**	**4,360,833**	**3,041,478**	**1,673,300**	**665,000**
2012 (Restated)								
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	2,473,296	300,000
Total	41,288	27,963	17,141,823	4,656,381	7,362,266	2,349,880	2,473,296	300,000

(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 (exchanging) 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 2013 (continued)

48 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.

2013

	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	2,930,618	9,705,806	9,967,747	108,793	-	22,712,964
Due from banks and financial institutions	8,547,845	695,820	362,503	-	-	9,606,168
Islamic financing and investing assets, net	3,198,033	4,563,855	8,879,252	26,793,616	12,635,882	56,070,638
Investment in Islamic sukuk	17,866	20,105	1,511,341	8,400,044	1,693,197	11,642,553
Other investments at fair value	-	-	1,066,155	963,502	-	2,029,657
Investments in associates and joint ventures	-	-	-	-	1,877,829	1,877,829
Properties held for sale	-	-	-	1,840,973	-	1,840,973
Investment properties	-	-	-	-	2,013,314	2,013,314
Receivables and other assets	41,457	398,052	1,034,312	3,483,168	385	4,957,374
Property, plant and equipment	-	-	-	228,173	308,795	536,968
Total assets	14,735,819	15,383,638	22,821,310	41,818,269	18,529,402	113,288,438
Liabilities and equity:						
Customers' deposits	14,270,542	11,096,110	32,670,132	20,952,861	70,896	79,060,541
Due to banks and financial institutions	1,498,918	558,018	84,487	488,583	-	2,630,006
Sukuk financing instruments	-	-	-	2,807,603	-	2,807,603
Medium term wakala finance	-	-	-	-	-	-
Payables and other liabilities	7,430,842	1,422,053	2,953,928	475,688	-	12,282,511
Zakat payable	-	-	165,588	-	-	165,588
Equity	-	-	593,063	(563,850)	16,312,976	16,342,189
Total liabilities and equity	23,200,302	13,076,181	36,467,198	24,160,885	16,383,872	113,288,438

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

48 Maturity analysis of assets and liabilities (continued)

2012 (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	3,061,994	4,096,076	8,218,972	96,957	-	15,473,999
Due from banks and financial institutions	2,350,950	922,109	20,000	-	-	3,293,059
Islamic financing and investing assets, net	2,867,061	4,907,169	8,964,298	24,374,219	14,069,941	55,182,688
Investment in Islamic sukuk	23,853	22,104	2,187,964	7,998,864	855,877	11,088,662
Other investments at fair value	-	-	611,970	1,369,062	-	1,981,032
Investments in associates and joint ventures	-	-	-	-	2,029,953	2,029,953
Properties held for sale	-	-	-	1,997,374	-	1,997,374
Investment properties	-	-	-	-	2,083,010	2,083,010
Receivables and other assets	115,913	53,556	3,917,457	803,659	1,373	4,891,958
Property, plant and equipment	-	-	-	256,430	333,047	589,477
Total assets	8,419,771	10,001,014	23,920,661	36,896,565	19,373,201	98,611,212
Liabilities and equity:						
Customers' deposits	6,831,035	9,218,177	28,266,824	22,330,684	78,803	66,725,523
Due to banks and financial institutions	586,651	173,229	3,504,515	2,403,605	-	6,668,000
Sukuk financing instruments	634,960	-	1,100,000	2,939,000	-	4,673,960
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Pyabales and other liabilities	1,201,408	1,129,317	1,961,594	641,679	702	4,934,700
Zakat payable	-	-	163,572	-	-	163,572
Equity	-	-	569,558	(820,131)	11,943,487	11,692,914
Total liabilities and equity	9,254,054	10,520,723	35,566,063	31,247,380	12,022,992	98,611,212

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

49 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 2013 and 2012:

2013	**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	**-**	**-**	**22,712,964**	**22,712,964**
Due from banks and financial institutions	**-**	**-**	**9,606,168**	**9,606,168**
Islamic financing and investing assets, net	**-**	**-**	**56,070,638**	**56,070,638**
Investment in Islamic sukuk measured at amortised cost	**-**	**-**	**11,642,553**	**11,642,553**
Other investments at fair value	**2,028,867**	**790**	**-**	**2,029,657**
Receivables and other assets	**-**	**21,041**	**4,802,962**	**4,824,003**
	2,028,867	**21,831**	**104,835,285**	**106,885,983**
Financial liabilities				
Customers' deposits	**-**	**-**	**79,060,541**	**79,060,541**
Due to banks and financial institutions	**-**	**-**	**2,630,006**	**2,630,006**
Sukuk financing instruments	**-**	**-**	**2,807,603**	**2,807,603**
Medium term wakala finance	**-**	**-**	**-**	**-**
Payables and other liabilities	**-**	**10,136**	**12,044,930**	**12,055,066**
	-	**10,136**	**96,543,080**	**96,553,216**
2012 (Restated)				
Financial assets				
Cash and balances with central banks	-	-	15,473,999	15,473,999
Due from banks and financial institutions	-	-	3,293,059	3,293,059
Islamic financing and investing assets, net	-	-	55,182,688	55,182,688
Investment in Islamic sukuk measured at amortised cost	-	-	11,088,662	11,088,662
Other investments at fair value	1,979,900	1,132	-	1,981,032
Receivables and other assets	-	41,288	4,729,594	4,770,882
	1,979,900	42,420	89,768,002	91,790,322
Financial liabilities				
Customers' deposits	-	-	66,725,523	66,725,523
Due to banks and financial institutions	-	-	6,668,000	6,668,000
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	4,753,698	4,781,661
	-	27,963	86,573,724	86,601,687

50 Fair value of financial instruments

This note provides information about how the Bank determines the fair value of various financial assets and financial liabilities.

(a) Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

All of the Bank's financial assets and financial liabilities, which are reported at their fair value in these consolidated financial statements, are measured at fair value at end of each reporting period. The fair value of financial assets and financial liabilities are determined as follows:

- Fair value of all quoted other investment measured at fair value through profit or loss and at fair value through other comprehensive income (note 10) are based on quoted price in an active market (unadjusted);
- Fair value of all unquoted other investments measured at fair value through other comprehensive income (note 10) are mainly based on net asset value of the investees on measurement dates. The net asset value is unobservable input and the Bank has determined that the reported net asset value represents the fair value at end of the reporting period; and
- Fair value of all Islamic derivatives financial instruments (Sharia compliant profit rate swap and unilateral promise to buy/sell currencies) is based on present value calculation of the estimated future cash flows. Future cash flows are estimated based on forward profit rates and/or exchange rates (from observable yield curves and/or forward exchange rates at the end of each reporting period) and contract profit and/or forward rates, present valued at a rate that reflects the credit risk of various counterparties.

The table below summarises the Bank's financial instruments fair value according to fair value hierarchy:

2013

	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	790	-	-	790
Investments carried at fair value through other comprehensive income				
Quoted equity instruments	858,638	-	-	858,638
Unquoted equity instruments	-	-	930,423	930,423
Unquoted investment funds	-	-	239,806	239,806
Other assets				
Islamic derivative assets	-	21,041	-	21,041
Total financial assets measured at fair value	859,428	21,041	1,170,229	2,050,698
Other liabilities				
Islamic derivative liabilities	-	10,136	-	10,136

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

50 Fair value of financial instruments (continued)

(a) Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

2012 (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	1,132	-	-	1,132
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	-	-	378,485	378,485
Other assets				
Islamic derivative assets	-	41,288	-	41,288
Total financial assets measured at fair value	611,970	41,288	1,369,062	2,022,320
Other liabilities				
Islamic derivative liabilities	-	27,963	-	27,963

The fair values of the financial assets included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on the present value of future cash flow analysis, with the most significant inputs being the applicable rate that reflects the credit risk of counterparties.

There were no transfers between Level 1 and 2 during the years ended 31 December 2013 and 2012.

(b) Reconciliation of Level 3 fair value measurement of financial assets measured at fair value through other comprehensive income

	2013 AED'000	2012 AED'000 (Restated)
Balance at1 January	**1,369,062**	1,447,628
Losses in other comprehensive income	**(46,235)**	(72,843)
Reclassified from investment in subsidiaries	**-**	19,335
Reclassified to investment in associates and joint ventures	**(54,662)**	-
Purchased during the year	**-**	4,591
Disposed during the year	**(97,936)**	(29,649)
Balance at 31 December	**1,170,229**	1,369,062

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

50 Fair value of financial instruments (continued)

(c) 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	Fair value			
2013	**amount AED'000**	**Level 1 AED'000**	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Financial assets:					
Investments in Islamic sukuk	**11,642,553**	**11,154,576**	**-**	**856,177**	**12,010,753**
Financial liabilities:					
Sukuk financing instruments	**2,807,603**	**2,971,687**	**-**	**-**	**2,971,687**
2012 (Restated)					
Financial assets:					
Investments in Islamic sukuk	11,088,662	8,770,301	-	3,690,630	12,460,931
Financial liabilities:					
Sukuk financing instruments	4,673,960	4,885,995	-	-	4,885,995

51 Risk management

(a) 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.

i. 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.

51 Risk management (continued)

(a) Introduction (continued)

i. Risk management structure (continued)

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.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(a) Introduction (continued)

ii 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.

iii. 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.

iv. 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.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(b) 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.

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 Islamic 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 2013 (continued)

51 Risk management (continued)

(b) Credit risk (continued)

i. 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 2013 AED'000	Gross maximum exposure 2012 AED'000 (Restated)
Balances with central banks	**20,971,972**	13,742,415
Due from banks and financial institutions	**9,606,168**	3,293,059
Islamic financing and investing assets	**60,643,911**	58,882,110
Investment in Islamic sukuk measured at amortised cost	**11,642,553**	11,088,662
Other investments at fair value	**2,029,657**	1,981,032
Receivables and other assets	**5,527,422**	5,372,670
	110,421,683	94,359,948
Contingent liabilities	**10,299,246**	9,789,727
Commitments	**14,753,643**	11,475,821
Total	**135,474,572**	115,625,496

ii. 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:

	Retail and business banking AED'000	**Wholesale banking AED'000**	**Total AED'000**
2013			
The U.A.E.	**30,168,218**	**97,997,518**	**128,165,736**
Other Gulf Cooperation Council (GCC) countries	**-**	**1,378,244**	**1,378,244**
South Asia	**434,739**	**2,497,223**	**2,931,962**
Europe	**-**	**2,370,057**	**2,370,057**
Africa	**-**	**304,512**	**304,512**
Other	**-**	**324,061**	**324,061**
Total	**30,602,957**	**104,871,615**	**135,474,572**

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(b) Credit risk (continued)

ii. Risk concentrations of the maximum exposure to credit risk (continued)

2012 (Restated)

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
The U.A.E.	26,676,833	82,706,024	109,382,857
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	244,757	244,827
Total	27,100,953	88,524,543	115,625,496

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	
	2013 AED'000	2012 AED'000 (Restated)
Financial Institutions	**39,534,274**	24,893,794
Real estate	**31,308,079**	31,049,256
Manufacturing and services	**21,296,628**	16,879,112
Consumer financing	**16,666,774**	14,089,656
Consumer home finance	**11,702,178**	13,509,828
Government	**5,287,423**	9,606,547
Trade	**9,679,216**	5,597,303
Total	**135,474,572**	115,625,496

iii 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 2013 (continued)

51 Risk management (continued)

(b) Credit risk (continued)

iv. Credit quality per class of financial assets

2013	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 at fair value AED'000	Receivables and other assets AED'000	Contingent liabilities and commitments AED'000	Total AED'000
Individually impaired						
Gross amount	-	5,654,003	-	1,365,316	-	7,019,319
Non-impaired exposures						
Neither past due nor impaired	30,578,140	49,068,511	13,672,210	4,085,942	25,052,889	122,457,692
Past due by less than 30 days	-	2,930,687	-	76,164	-	3,006,851
Past due by more than 30 days but less than 90 days	-	1,502,313	-	-	-	1,502,313
Past due by more than 90 days	-	1,488,397	-	-	-	1,488,397
Gross amount	30,578,140	54,989,908	13,672,210	4,162,106	25,052,889	128,455,253
Total gross maximum exposure	30,578,140	60,643,911	13,672,210	5,527,422	25,052,889	135,474,572
Allowances for impairment	-	(4,573,273)	-	(703,419)	-	(5,276,692)
Net carrying amount	30,578,140	56,070,638	13,672,210	4,824,003	25,052,889	130,197,880

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

51 Risk management (continued)

(b) Credit risk (continued)

iv. Credit quality per class of financial assets (continued)

2012 (Restated)	**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 at fair value 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	17,035,474	47,406,317	13,069,694	4,023,381	21,265,548	102,800,414
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	17,035,474	52,764,031	13,069,694	4,077,236	21,265,548	108,211,983
Total gross maximum exposure	17,035,474	58,882,110	13,069,694	5,372,670	21,265,548	115,625,496
Allowances for impairment	-	(3,699,422)	-	(601,788)	-	(4,301,210)
Net carrying amount	17,035,474	55,182,688	13,069,694	4,770,882	21,265,548	111,324,286

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(b) Credit risk (continued)

iv. 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 2013 AED'000**	Total 2012 AED'000 (Restated)
Low risk			
Risk rating class 1	Aaa	**24,150,145**	17,335,102
Risk rating classes 2 and 3	Aa1-A3	**25,849,242**	18,492,272
Fair risk			
Risk rating class 4	Baa1-Baa3	**27,434,591**	20,662,823
Risk rating classes 5 and 6	Ba1-B3	**38,973,653**	35,699,165
Risk rating class 7	Caa1-Caa3	**11,429,696**	14,701,539
High risk			
Risk rating classes 8 to11		**7,637,245**	8,734,595
		135,474,572	115,625,496

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.

v. 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 2013 (continued)

51 Risk management (continued)

(b) Credit risk (continued)

v. 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 murabahas, and unsecured retail financing and investing 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.

(c) 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 2013 (continued)

51 Risk management (continued)

(c) Liquidity risk and funding management (continued)

i. 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 Islamic 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**
2013	**42%**	**35%**	**29%**	**36%**
2012 (Restated)	21%	25%	23%	22%

ii. 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 2013, the Bank issued Tier 1 sukuk AED 3,673 million (USD 1,000 million) sukuk to diversify sources of funding to support business growth going forward (note 25).

iii. 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 2013 and 2012. 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 2013 (continued)

51 Risk management (continued)

(c) Liquidity risk and funding management (continued)

iii. 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
2013						
Balances with central banks	**2,570,699**	**5,860,116**	**9,997,346**	**-**	**-**	**18,428,161**
Due from banks and financial institutions	**4,729,651**	**8,864,985**	**-**	**-**	**-**	**13,594,636**
Islamic financing and investing assets, net	**4,282,666**	**6,941,699**	**9,398,187**	**31,854,046**	**19,160,096**	**71,636,694**
Investment in Islamic sukuk	**17,866**	**23,752**	**1,658,968**	**9,594,802**	**2,280,515**	**13,575,903**
Other investments at fair value	**-**	**-**	**1,062,508**	**997,269**	**-**	**2,059,777**
Receivables and other assets	**76,164**	**664,119**	**1,141,272**	**3,645,867**	**-**	**5,527,422**
Total assets	**11,677,046**	**22,354,671**	**23,258,281**	**46,091,984**	**21,440,611**	**124,822,593**
Customers' deposits	**14,437,148**	**11,241,126**	**34,935,859**	**22,035,867**	**70,895**	**82,720,895**
Due to banks and other financial institutions	**1,498,918**	**558,018**	**90,082**	**-**	**-**	**2,147,018**
Sukuk financing instruments	**-**	**-**	**28,411**	**3,494,270**	**-**	**3,522,681**
Medium term wakala finance	**-**	**-**	**-**	**-**	**-**	**-**
Payables and other liabilities	**7,437,205**	**1,429,319**	**2,660,428**	**548,205**	**-**	**12,075,157**
Zakat payable	**-**	**-**	**165,588**	**-**	**-**	**165,588**
Total liabilities	**23,373,271**	**13,228,463**	**37,880,368**	**26,078,342**	**70,895**	**100,631,339**
2012 (Restated)						
Balances with central banks	3,123,765	4,186,484	8,240,797	97,315	-	15,648,361
Due from banks and financial institutions	528,113	2,745,152	20,000	-	-	3,293,265
Islamic financing and investing assets, net	5,613,187	10,358,216	9,494,010	26,669,199	21,804,536	73,939,148
Investment in Islamic sukuk	5,295	40,879	2,216,941	9,986,142	1,119,821	13,369,078
Other investments at fair value	-	-	611,970	1,552,326	-	2,164,296
Receivables and other assets	123,874	66,875	1,787,507	3,120,920	2,751	5,101,927
Total assets	9,394,234	17,397,606	22,371,225	41,425,902	22,927,108	113,516,075
Customers' deposits	23,140,289	18,263,248	11,247,196	17,168,237	79,095	69,898,065
Due to banks and other financial institutions	743,830	174,029	3,620,115	2,577,893	-	7,115,867
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	856,090	1,228,508	2,111,419	737,277	1,406	4,934,700
Zakat payable	-	-	163,571	-	-	163,571
Total liabilities	24,740,209	20,767,972	18,261,860	28,069,744	80,501	91,920,286

Assets available to meet all of the liabilities and to cover outstanding commitments include cash and balances with central banks, Islamic financing and investing assets, other investments at fair value and items in the course of collection.

51 Risk management (continued)

(c) Liquidity risk and funding management (continued)

iv. 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
2013						
Unilateral promise to buy/sell currencies	**-**	**5,343,890**	**4,360,833**	**-**	**-**	**9,704,723**
Islamic profit rate swaps	-	-	**-**	**4,714,778**	**665,000**	**5,379,778**
	-	**5,343,890**	**4,360,833**	**4,714,778**	**665,000**	**15,084,501**
2012 (Restated)						
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

v. Contingent liabilities and commitments

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

2013

	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	**-**	**138,280**	**1,609,837**	**3,048,051**	**2,190,034**	**6,986,202**
- Letters of credit	**-**	**1,141,222**	**1,673,715**	**483,181**	**14,926**	**3,313,044**
	-	**1,279,502**	**3,283,552**	**3,531,232**	**2,204,960**	**10,299,246**
Capital expenditure commitments	**-**	**3,598**	**-**	**900,007**	**-**	**903,605**
Total	**-**	**1,283,100**	**3,283,552**	**4,431,239**	**2,204,960**	**11,202,851**

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(c) Liquidity risk and funding management (continued)

v. Contingent liabilities and commitments (continued)

2012 (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	-	5,510,365	1,528,333	787,732	1,718	7,828,148
- Letters of credit	-	1,563,847	397,861	587	-	1,962,295
	-	7,074,212	1,926,194	788,319	1,718	9,790,443
Capital expenditure commitments	-	-	12,135	1,070,678	-	1,082,813
Total	-	7,074,212	1,938,329	1,858,997	1,718	10,873,256

(d) 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.

Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(d) Market risk (continued)

i. 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.

ii. 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 2013 and 2012.

Currency	**Increase in basis points**	**Sensitivity of profit on Islamic financing and investing assets 2013 AED'000**	Sensitivity of profit on Islamic financing and investing assets 2012 AED'000 (Restated)
AED	**50**	**49,168**	48,575
USD	**50**	**10,283**	5,850

iii. 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 2013 and 2012. 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 2013 (continued)

51 Risk management (continued)

(d) Market risk (continued)

iii. Foreign exchange risk (continued)

2013

	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	22,162,134	419,130	-	-	-	131,700	22,712,964
Due from banks and financial institutions	2,341,955	6,738,868	435,328	21,974	36,119	31,924	9,606,168
Islamic financing and investing assets, net	49,629,618	4,978,111	17	168	4,152	1,458,572	56,070,638
Investment in Islamic sukuk measured at amortised cost	574,802	10,309,443	-	-	-	758,308	11,642,553
Other investments at fair value	717,229	1,035,893	178,389	3,881	29,831	64,434	2,029,657
Receivables and other assets	4,770,382	21,911	965	-	13,270	17,475	4,824,003
Total	80,196,120	23,503,356	614,699	26,023	83,372	2,462,413	106,885,983
Financial Liabilities:							
Customers' deposits	72,248,919	4,028,724	491,400	45,628	179,512	2,066,358	79,060,541
Due to banks and other financial institutions	1,448,016	1,038,067	-	35	76	143,812	2,630,006
Sukuk financing instruments	-	2,807,603	-	-	-	-	2,807,603
Payables and other liabilities	4,484,240	7,413,698	90,582	315	1,637	64,594	12,055,066
Total	78,181,175	15,288,092	581,982	45,978	181,225	2,274,764	96,553,216
Net on balance sheet	2,014,945	8,215,264	32,717	(19,955)	(97,853)	187,649	10,332,767
Unilateral promise to buy/sell currencies	5,318,606	(5,501,055)	73,467	15,387	23,388	70,207	-
Currency position - long/(short)	7,333,551	2,714,209	106,184	(4,568)	(74,465)	257,856	10,332,767

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(d) Market risk (continued)

iii. Foreign exchange risk (continued)

2012 (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	15,200,907	203,005	-	-	-	70,087	15,473,999
Due from banks and financial institutions	971,977	2,108,490	66,362	71,630	50,805	23795	3,293,059
Islamic financing and investing assets, net	49,636,254	4,180,344	200,374	7,243	-	1,158,473	55,182,688
Investment in Islamic sukuk measured at amortised cost	2,132,513	8,103,600	-	-	-	852,549	11,088,662
Other investments at fair value	889,279	798,412	149,064	74,919	3,486	65,872	1,981,032
Receivables and other assets	4,660,522	39,859	653	12,816	-	57,032	4,770,882
Total	73,491,452	15,433,710	416,453	166,608	54,291	2,227,808	91,790,322
Financial Liabilities:							
Customers' deposits	61,308,046	3,187,854	7,510	220,251	45,038	1,956,824	66,725,523
Due to banks and other financial institutions	5,485,241	1,104,029	-	435	11,419	66,876	6,668,000
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	4,386,869	327,198	11,436	1,617	574	53,967	4,781,661
Total	75,572,509	8,653,231	18,946	222,303	57,031	2,077,667	86,601,687
Net on balance sheet	(2,081,057)	6,780,479	397,507	(55,695)	(2,740)	150,141	5,188,635
Unilateral promise to buy/sell currencies	9,809,055	(9,628,614)	(291,934)	3,196	12,489	95,808	-
Currency position - long/(short)	7,727,998	(2,848,135)	105,573	(52,499)	9,749	245,949	5,188,635

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

51 Risk management (continued)

(d) Market risk (continued)

iii. 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 2013 and 2012 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 2013 AED'000**	Effect on profit before tax 2012 AED'000 (Restated)
GBP	**+2**	**(92)**	1,049
EURO	**+2**	**(1,489)**	(195)

Currency	**Decrease in currency rate in %**	**Effect on profit before tax 2013 AED'000**	Effect on profit before tax 2012 AED '000 (Restated)
GBP	**-2**	**92**	(1,049)
EURO	**-2**	**1,489**	195

iv. 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 2013 and 2012 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 2013 (continued)

51 Risk management (continued)

(d) Market risk (continued)

iv. Foreign investment (continued)

Currency	Increase in currency rate in %	Effect on profit before tax 2013 AED'000	Effect on equity 2013 AED'000	Effect on profit before tax 2012 AED'000 (Restated)	Effect on equity 2012 AED'000 (Restated)
Pak Rupees	+5	(1,005)	(25,034)	1,025	13,551
Egypt Sterling	+5	373	8,406	1,075	8,975

Currency	Decrease in currency rate in %	Effect on profit before tax 2013 AED'000	Effect on equity 2013 AED'000	Effect on profit before tax 2012 AED'000 (Restated)	Effect on Equity 2012 AED'000 (Restated)
Pak Rupees	-5	(2,277)	(47,316)	(156)	(12,261)
Egypt Sterling	-5	(338)	(7,609)	(254)	(8,122)

v. 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 2013 and 2012) 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 2013 AED'000	Effect on equity 2013 AED'000	Effect on consolidated income statement 2012 AED'000 (Restated)	Effect on equity 2012 AED'000 (Restated)
Dubai Financial Market	± 5%	39	18,916	56	16,522
Abu Dhabi Exchange	± 5%	-	5,191	-	3,794
Bahrain Stock Exchange	± 5%	-	3,132	-	1,970
Saudi Stock Exchange	± 5%	-	3,757	-	3,417
Doha Stock Exchange	± 5%	-	2,013	-	2,041
Egypt Stock Exchange	± 5%	-	1,328	-	-
Other	± 5%	-	1,263	-	2,304

51 Risk management (continued)

(e) 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.

52 Capital management

(a) 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.

(b) 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.

52 Capital management (continued)

(b) Regulatory capital (continued)

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes share capital, Tier 1 sukuk, 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% 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 2013 and 2012, the Bank complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2013 and 2012, 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 2013 (continued)

52 Capital management (continued)

(c) Capital adequacy ratio ("CAR")

Basel 2 and the U.A.E. Central Bank requirements are followed in calculating the following ratios:

	2013 AED'000	2012 AED'000 (Restated)
Tier 1 Capital		
Share capital	**3,953,751**	3,797,054
Tier 1 sukuk	**3,673,000**	-
Other reserves	**5,508,795**	5,348,964
Retained earnings	**1,027,396**	725,192
Non-controlling interest	**317,373**	965,971
	14,480,315	10,837,181
Less:		
Treasury shares	**(13,099)**	-
Cumulative deferred exchange losses	**(280,833)**	(197,192)
Total Tier 1 Capital	**14,186,383**	10,639,989
Tier 2 Capital		
Investment fair value reserve	**(563,850)**	(820,130)
Collective impairment allowance	**902,348**	696,179
Medium term wakala finance	**-**	3,002,034
Total Tier 2 Capital	**338,498**	2,878,083
Deductions from capital	**(570,260)**	(477,491)
Total capital base	**13,954,621**	13,040,581
Risk weighted assets		
Credit risk	**70,199,816**	69,353,608
Market risk	**1,804,650**	1,910,767
Operational risk	**4,526,311**	3,840,839
Total risk weighted assets	**76,530,777**	75,105,214
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio")	**18.2%**	17.4%
Tier 1 capital to total risk weighted assets after deductions for associates	**18.2%**	13.9%

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

53 Comparative amounts

The following tables summarize the impact of the adoption of the IFRS 10, IFRS 11 and others adjustments on the comparative balances (i.e. 31 December 2012 and 1 January 2012), results (i.e. 31 December 2012) and cash flows (i.e. 31 December 2012):

Consolidated statement of financial position:

	As at 31 December 2012				
	As previously reported AED'000	**IFRS 10 adjustments AED'000**	**IFRS 11 adjustments AED'000**	**Others (note 10) AED'000**	**As restated AED'000**
ASSETS					
Cash and balances with central Banks	15,473,549	526	(76)	-	15,473,999
Due from banks and financial Institutions	3,169,114	123,945	-	-	3,293,059
Islamic financing and investing assets, net	55,560,103	(377,739)	324	-	55,182,688
Investments in Islamic sukuk measured at amortised cost	11,088,662	-	-	-	11,088,662
Other investments at fair value	2,144,871	20,517	(1,091)	(183,265)	1,981,032
Investments in associates and joint ventures	2,294,028	(548,342)	101,002	183,265	2,029,953
Properties held for sale	224,909	1,820,278	(47,813)	-	1,997,374
Investment properties	1,931,808	215,916	(64,714)	-	2,083,010
Receivables and other assets	2,920,298	1,990,369	(18,709)	-	4,891,958
Property, plant and equipment	557,357	35,550	(3,430)	-	589,477
Total assets	95,364,699	3,281,020	(34,507)	-	98,611,212
LIABILITIES AND EQUITY					
LIABILITIES					
Customers' deposits	66,800,852	(79,287)	3,958	-	66,725,523
Due to banks and financial institutions	6,158,289	509,711	-	-	6,668,000
Sukuk financing instruments	4,673,960	-	-	-	4,673,960
Medium term wakalat finance	3,752,543	-	-	-	3,752,543
Payables and other liabilities	3,255,628	1,717,537	(38,465)	-	4,934,700
Zakat payable	163,572	-	-	-	163,572
Total liabilities	84,804,844	2,147,961	(34,507)	-	86,918,298
EQUITY					
Equity attributable to owners of the Parent	9,588,562	(500,781)	-	-	9,087,781
Non-controlling interests	971,293	1,633,840	-	-	2,605,133
Total equity	10,559,855	1,133,059	-	-	11,692,914
Total liabilities and equity	95,364,699	3,281,020	(34,507)	-	98,611,212

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

53 Comparative amounts (continued)

Consolidated statement of financial position:

	As at 1 January 2012			
	As previously reported AED'000	IFRS 10 adjustments AED'000	IFRS 11 adjustments AED'000	As restated AED'000
ASSETS				
Cash and balances with central banks	12,952,319	437	(77)	12,952,679
Due from banks and financial institutions	3,043,096	108,963	-	3,152,059
Islamic financing and investing assets, net	51,507,049	(390,000)	569	51,117,618
Investments in Islamic sukuk measured at amortised cost	12,688,111	-	-	12,688,111
Other investments at fair value	2,034,389	19,507	(763)	2,053,133
Investments in associates and joint ventures	2,336,439	(1,242,629)	105,118	1,198,928
Properties held for sale	609,756	1,996,707	(47,808)	2,558,655
Investment properties	1,785,205	202,451	(69,127)	1,918,529
Receivables and other assets	3,050,690	2,653,139	(17,961)	5,685,868
Property, plant and equipment	581,410	41,662	(3,952)	619,120
Total assets	90,588,464	3,390,237	(34,001)	93,944,700
LIABILITIES AND EQUITY				
LIABILITIES				
Customers' deposits	64,929,839	(166,772)	8,331	64,771,398
Due to banks and financial institutions	4,052,433	525,548	-	4,577,981
Sukuk financing instruments	4,173,983	-	-	4,173,983
Medium term wakalat finance	3,752,543	-	-	3,752,543
Payables and other liabilities	3,384,833	1,922,880	(42,332)	5,265,381
Zakat payable	121,076	-	-	121,076
Total liabilities	80,414,707	2,281,656	(34,001)	82,662,362
EQUITY				
Equity attributable to owners of the Parent	9,135,435	(500,781)	-	8,634,654
Non-controlling interests	1,038,322	1,609,362	-	2,647,684
Total equity	10,173,757	1,108,581	-	11,282,338
Total liabilities and equity	90,588,464	3,390,237	(34,001)	93,944,700

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

53 Comparative amounts (continued)

Consolidated income statement:

	For the year ended 31 December 2012			
	As previously reported AED'000	**IFRS 10 Adjustments AED'000**	**IFRS 11 adjustments AED'000**	**As restated AED'000**
INCOME				
Income from Islamic financing and investing assets	3,286,436	(20,040)	-	3,266,396
Income from investments in Islamic sukuk	621,465	-	-	621,465
Income from International murabahat and wakala, short term	55,359	2,798	-	58,157
Gain from other investments at fair value, net	59,918	(37,058)	(377)	22,483
Commissions, fees and foreign exchange income	733,365	46,679	(30)	780,014
Income from investment properties	98,209	17,230	(25,144)	90,295
Income from properties held for sale, net	15,123	202,269	-	217,392
Other income	156,449	24,172	(5,807)	174,814
Total income	5,026,324	236,050	(31,358)	5,231,016
EXPENSES				
Personnel expenses	(914,837)	(58,235)	6,809	(966,263)
General and administrative expenses	(476,953)	(51,231)	9,748	(518,436)
Depreciation of property, plant and equipment	(31,351)	(4,400)	4,413	(31,338)
Depreciation of investment properties	(99,196)	(5,933)	1,294	(103,835)
Impairment loss on financial assets, net	(972,633)	-	-	(972,633)
Impairment loss on non-financial assets, net	(70,495)	(50,129)	-	(120,624)
Total expenses	(2,565,465)	(169,928)	22,264	(2,713,129)
Operating profit before depositors' and sukuk holders' share of profit, share of profit from associates and joint venture s and income tax	2,460,859	66,122	(9,094)	2,517,887
Depositors' and sukuk holders share of profit	(1,316,205)	(36,294)	-	(1,352,499)
Operating profit for the year	1,144,654	29,828	(9,094)	1,165,388
Share of profit from associates and joint ventures	60,301	(8,538)	9,094	60,857
Profit for the year before income tax	1,204,955	21,290	-	1,226,245
Income tax expense	(12,801)	-	-	(12,801)
Profit for the year	1,192,154	21,290	-	1,213,444
Attributable to:				
Owners of the Parent	1,150,072	-	-	1,150,072
Non-controlling interests	42,082	21,290	-	63,372
Profit for the period	1,192,154	21,290	-	1,213,444

Notes to the consolidated financial statements for the year ended 31 December 2013 (continued)

53 Comparative amounts (continued)

Consolidated statement of cash flows:

	For the year ended 31 December 2012			
	As previously reported AED'000	**IFRS 10 Adjustments AED'000**	**IFRS 11 adjustments AED'000**	**As restated AED'000**
Net cash flows from operating activities	(421,857)	(102,472)	(771)	(525,100)
Net cash flows from investing activities	1,524,953	148,549	771	1,674,273
Net cash flows from financing activities	(127,199)	3,378	-	(123,821)
Net cash flows	975,897	49,455	-	1,025,352

54 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 29 January 2014.

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

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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

ديلويت اند توش
Deloitte & Touche

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	**Dr. Tariq Humaid Al Tayer**	**Abdulla Ali Al Hamli**
Chairman	*Vice Chairman*	*Chief Executive Officer*

Dubai Islamic Bank P.J.S.C.

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:

New and revised IFRSs	Effective for annual periods beginning on or after
• 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

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

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.

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.

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.

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.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

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.

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.

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.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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.

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.

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.

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.

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.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 AED'000	2011 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

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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).

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)

	Land AED'000	Other real estate AED'000	Investment properties under construction AED'000	Total AED'000
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.

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 million (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	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.

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

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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 6 months LIBOR + 3.65% per annum at the time of issuance.

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.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

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.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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	2011	**2012**	2011
	AED'000	AED'000 (Restated)	**AED'000**	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.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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	2,473,296	300,000
Total	41,288	27,963	17,141,823	4,656,381	7,362,266	2,349,880	2,473,296	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".

Dubai Islamic Bank P.J.S.C.

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.

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

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

52 Risk management (continued)

52.2 Credit risk (continued)

52.2.3 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	105,800,448
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

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)

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.

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 financial 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) 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.

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

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

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.

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