BASE PROSPECTUS DATED 21 MAY 2012

بنك دبي الإسلامي
Dubai Islamic Bank

DIB Sukuk Limited

(*incorporated in the Cayman Islands with limited liability*)

U.S.$2,500,000,000
Trust Certificate Issuance Programme

Under the U.S.$2,500,000,000 trust certificate issuance programme described in this Base Prospectus (the **Programme**), DIB Sukuk Limited (in its capacities as issuer and as trustee, the **Trustee**), subject to compliance with all applicable laws, regulations and directives, may from time to time issue trust certificates (the **Certificates**) in any currency agreed between the Trustee and the relevant Dealer (as defined below).

Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates from time to time outstanding under the Programme will not exceed U.S.$2,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

Each Series (as defined herein) of Certificates issued under the Programme will be constituted by (i) a master trust deed (the **Master Trust Deed**) dated 21 May 2012 entered into between the Trustee, Dubai Islamic Bank PJSC (**DIB**) and Deutsche Trustee Company Limited as delegate of the Trustee (the **Delegate**, which expression shall include any co-Delegate or any successor) and (ii) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, each a **Trust Deed**) in relation to the relevant Series. Certificates of each Series confer on the holders of the Certificates from time to time (the **Certificateholders**) the right to receive certain payments (as more particularly described herein) arising from a *pro rata* ownership interest in the assets of a trust declared by the Trustee in relation to the relevant Series (the **Trust**) over the Trust Assets (as defined below) which will include, *inter alia*, (i) the relevant Portfolio (as defined herein); and (ii) the relevant Transaction Documents (as defined below).

The Certificates may be issued on a continuing basis to one or more of the Dealers (each a **Dealer** and together the **Dealers**) specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Trustee and DIB, which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Certificates.

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

This Base Prospectus has been approved by the Central Bank of Ireland (the **Irish Central Bank**) as competent authority under Directive 2003/71/EC (the **Prospectus Directive**). The Irish Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (**EU**) law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for Certificates issued under the Programme during the 12 months from the date of this Base Prospectus to be admitted to the official list (the **Official List**) and trading on its regulated market (the **Regulated Market**). Such approval relates only to the Certificates which are to be admitted to trading on the regulated market of the Irish Stock Exchange or any other regulated markets for the purposes of Directive 2004/39/EC (each such regulated market being a **MiFID Regulated Market**) or which are to be offered to the public in any member state of the European Economic Area (each a **Member State**).

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

The Programme provides that Certificates may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Trustee, DIB and the relevant Dealer. The Trustee may also issue unlisted Certificates and/or Certificates not admitted to trading on any market.

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules (the **Rules**) of the Dubai Financial Services Authority. This Base Prospectus is intended for distribution only to Persons of a type specified in those Rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The Certificates to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

Notice of the aggregate face amount of Certificates and any other terms and conditions not contained herein which are applicable to each Series will be set out in a final terms document (the **applicable Final Terms**) which, with respect to Certificates to be listed on the Irish Stock Exchange, will be delivered to the Irish Central Bank and the Irish Stock Exchange on or around the date of issue of such Series.

The Trustee and DIB may agree with any Dealer that Certificates may be issued with terms and conditions not contemplated by the Terms and Conditions of the Certificates herein, in which event a supplemental Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Certificates.

The Certificates have not been nor will be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) nor with any securities regulatory authority of any state or other jurisdiction of the United States and the Certificates 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. Accordingly, Certificates may be offered or sold solely to persons who are not U.S. persons (as defined in Regulation S) 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.

The rating of certain Series of Certificates to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to, relevant Series of Certificates will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**) will be disclosed in the applicable Final Terms.

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

Names of Arrangers

Deutsche Bank **Dubai Islamic Bank** **HSBC**

Names of Dealers

Deutsche Bank **Dubai Islamic Bank** **Emirates NBD Capital**

HSBC **National Bank of Abu Dhabi**

The date of this Base Prospectus is 21 May 2012.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**).

Each of the Trustee and DIB accepts responsibility for the information contained in this Base 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 Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information under the headings. "*Risk Factors*", "*Description of Dubai Islamic Bank PJSC*", "*Overview of the United Arab Emirates*" and "*The United Arab Emirates Banking Sector and Regulations*" has been extracted from information provided by: (i) the UAE Central Bank, the Real Estate Regulatory Authority of Dubai, Colliers International and Jones Lang La Salle, in the case of "*Risk Factors*"; (ii) the UAE and Dubai governments, and the UAE Central Bank, in the case of "*Description of Dubai Islamic Bank PJSC*"; (iii) the BP Statistical Review of World Energy the Organization of Oil Exporting Countries (**OPEC**), the UAE 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 Dubai Financial Market and the UAE 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.

This Base Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Final Terms.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Certificates are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of Final Terms will be available from the registered office of the Trustee and the specified office set out below of the Principal Paying Agent (as defined below) save that, if the relevant Certificates are neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Certificateholder holding one or more Certificates and such Certificateholder must produce evidence satisfactory to the Trustee or, as the case may be, the Principal Paying Agent as to its holding of such Certificates and identity.

No person is or has been authorised by the Trustee or DIB to give any information or to make any representation not contained in or not consistent with this Base Prospectus in connection with the Programme or the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, DIB, the Dealers (as defined under "*Overview of the Programme*"), the Delegate, the Agents (each as defined herein) or any other person. Neither the delivery of this document nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Delegate and the Dealers expressly do not undertake to review the financial condition or affairs of the Trustee or DIB at any point, including during the life of the Programme, or to advise any investor in the Certificates of any information coming to their attention.

None of the Dealers, the Delegate or the Agents 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 Base Prospectus or any other information provided by DIB in connection with the Programme.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Certificates is (i) intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Trustee, DIB, the Dealers, the Delegate or the Agents that any recipient of this Base Prospectus 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 Dealers, the Trustee, the Delegate or the Agents accepts any liability in relation to the information contained in this Base Prospectus or any other information provided by the Trustee and DIB in connection with the Programme.

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

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

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

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

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

(e) 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.

Some 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 Certificates which are complex financial instruments unless it has the expertise (either alone or with 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.

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 (1) Certificates are legal investments for it, (2) Certificates can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any 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.

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

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 Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Certificates may be restricted by law in certain jurisdictions. None of the Trustee, DIB, the Dealers, the Delegate or the Agents represents that this Base Prospectus may be lawfully distributed, or that any 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 Dealers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Base 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 Base Prospectus or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the Republic of Ireland and the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong and Malaysia, see "*Subscription and Sale*".

This Base Prospectus has been prepared on the basis that any offer of Certificates in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Certificates. Accordingly any person making or intending to make an offer in that Relevant Member State of Certificates which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Certificates may only do so in circumstances in which no obligation arises for the Trustee, DIB or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. None of the Trustee, DIB or any Dealer have authorised, nor do they authorise, the making of any offer of Certificates in circumstances in which an obligation arises for the Trustee, DIB or any Dealer to publish or supplement a prospectus for such offer.

None of the Dealers, the Trustee, DIB or the Delegate 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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

The financial statements relating to DIB included in this document are as follows:

- unaudited condensed consolidated interim financial statements as at and for the three month period ended 31 March 2012 (the **2012 Interim Financial Statements**);
- audited consolidated financial statements as at and for the financial year ended 31 December 2011 (the **2011 Financial Statements**); and
- audited consolidated financial statements as at and for the financial year ended 31 December 2010 (the **2010 Financial Statements** and, together with the 2011 Financial Statements, the **Annual Financial Statements**).

Each of the Annual Financial Statements and the 2012 Interim Financial Statements (together, the **Financial Statements**) have been prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (the **IASB**). The Annual Financial Statements have been audited in accordance with International Standards on Auditing by Deloitte & Touche (M.E.) (**Deloitte**) without qualification. The 2012 Interim Financial Statements have been reviewed by Deloitte in accordance with the International Standard of Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity".

DIB publishes its financial statements in UAE dirham.

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

PRESENTATION OF UAE STATISTICAL INFORMATION

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.

PRESENTATION OF OTHER INFORMATION

In this document, references to:

- **Group** are to DIB and its consolidated subsidiaries and associates taken as a whole;
- **Abu Dhabi** and **Dubai** are to the Emirate of Abu Dhabi and the Emirate of Dubai, respectively;
- the **UAE** are to the United Arab Emirates;
- the **GCC** are to the Gulf Co-operation Council;
- the **MENA region** are to the Middle East and North Africa region;
- **U.S.$** or **U.S. dollars** are to the lawful currency of the United States;
- **euro** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union; and
- **dirham** and **AED** are to the lawful currency of the UAE and references to **fil** are to the sub-unit of the dirham.

The 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 dirham is at a fixed rate of AED 3.6725 = U.S.$1.00. All U.S.$ translations of dirham amounts appearing in this Base Prospectus have been translated at this fixed exchange rate. Such translations should not be construed as representations that dirham amounts have been or could be converted into U.S. dollars at this or any other rate of exchange.

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; 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.

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning DIB's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. When used in this Base Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*" and "*Description of Dubai Islamic Bank PJSC*" and other sections of this Base Prospectus. DIB has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although DIB believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise, including those identified below or which DIB has otherwise identified in this Base Prospectus, or if any of DIB's underlying assumptions prove to be incomplete or inaccurate, DIB's actual results of operation may vary from those expected, estimated or predicted. Investors are therefore strongly advised to read the sections "*Risk Factors*", "*Description of Dubai Islamic Bank PJSC*" and "*The United Arab Emirates Banking Sector and Regulations*", which include a more detailed description of the factors that might have an impact on DIB's business development and on the industry sector in which DIB operates.

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.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*".

These forward-looking statements speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws, DIB expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

CREDIT RATING AGENCIES

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.

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.

NOTICE TO UK RESIDENTS

Any Certificates to be issued under the Programme which do not constitute "alternative finance investment bonds" within the meaning of Article 77A of the FSMA as amended by the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 (*Non-Regulatory AFIBs*) will represent interests in a collective investment scheme (as defined in the FSMA) which has not been authorised, recognised or otherwise approved by the Financial Services Authority. Accordingly, this Base 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 Base Prospectus, any Final Terms 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*), (ii) persons falling within any of the categories of persons described in Article 49 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 the Certificates are Non-Regulatory AFIBs and the distribution is 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 set out 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 of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order. Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus, any Final Terms or any other marketing materials in relation to any Certificates.

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

Any individual intending to invest in any investment described in this Base Prospectus 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 any Certificates.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base 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 Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base 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 Base Prospectus he or she should consult an authorised financial adviser.

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus. Each potential investor residing in Bahrain intending to subscribe for the Certificates (each, a *potential investor*) may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase the Certificates within a reasonable time period determined by the Trustee, DIB and the Dealers. Pending the provision of such evidence, an application to subscribe for Certificates will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Trustee, DIB or the Dealers are satisfied therewith, its application to subscribe for Certificates may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Trustee and DIB will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering.

NOTICE TO QATARI RESIDENTS

This Base Prospectus is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of Qatar. The Certificates have not been and will not be authorised by the Qatar Financial Markets Authority (*QFMA*), the Qatar Financial Centre (*QFC*) or the Qatar Central Bank (*QCB*) in accordance with their regulations or any other regulations in Qatar. The Certificates and interests therein will not be offered to investors domiciled or resident in Qatar and do not constitute debt financing in Qatar under the Commercial Companies Law No. (5) of 2002 (the *Commercial Companies Law*) or otherwise under any laws of Qatar.

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 Base Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within the categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia (*CMSA*).

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

STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY SERIES, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILISING MANAGER(S) (OR ANY PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE FINAL TERMS 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. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSON ACTING ON BEHALF OF ANY 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 OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION ACTION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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RISK FACTORS

The purchase of any 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 Certificates should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Base Prospectus.

Each of the Trustee and DIB believes that the factors described below represent the principal risks inherent in investing in Certificates, but the inability of the Trustee to pay any amounts on or in connection with any Certificate may occur for other reasons and none of the Trustee or DIB represents that the statements below regarding the risks of holding any Certificate are exhaustive. 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 Certificates.

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Words and expressions defined in "Structure Diagram and Cashflows", "Form of the Certificates" and "Terms and Conditions of the Certificates" shall have the same meanings in this section.

FACTORS THAT MAY AFFECT THE TRUSTEE'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER CERTIFICATES ISSUED UNDER THE PROGRAMME

The Trustee is a newly formed entity and has no operating history. The Trustee will not engage in any business activity other than the issuance of Certificates under the Programme, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets relating to each Series of Certificates, including its right to receive payments under the relevant Transaction Documents. The ability of the Trustee to pay amounts due on the Certificates of each Series will primarily be dependent upon receipt by the Trustee of all amounts due from DIB under the relevant Transaction Documents. 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 their respective obligations under the Transaction Documents to which they are a party. See "*Risks relating to DIB*" below for a further description of these risks.

FACTORS THAT MAY AFFECT DIB'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER THE TRANSACTION DOCUMENTS TO WHICH IT IS A PARTY

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 "*– Factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme – Risk factors relating to enforcement*").

Majority of business in the UAE

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

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

Political, economic and related considerations

DIB's business is, and will continue to be, affected by economic and political developments in or affecting the UAE, the Middle East and North Africa (**MENA**) region and investors' reactions to developments in one country may affect securities of issuers in other markets including the UAE. Approximately 95 per cent. of DIB's operations and interests are located in the UAE, with a particular focus on Dubai. While the UAE is currently seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not and there is no guarantee that the UAE will continue to be so in the future. 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 on-going political uncertainty and civil unrest therein. Whilst DIB's business has not been directly impacted by the unrest described above 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.

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

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

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

- regional political instability, including government or military regime change, riots or other forms of civil disturbance or violence, including through acts of terrorism;
- military strikes or the outbreak of war or other hostilities involving nations in the region;
- a material curtailment of the industrial and economic infrastructure development that is currently underway across the MENA region;
- government intervention, including expropriation or nationalisation of assets or increased levels of protectionism;
- an increase in inflation and the cost of living;
- cancellation of contractual rights, expropriation of assets and/or inability to repatriate profits and/or dividends;
- increased government regulations, or adverse governmental activities, with respect to price, import and export controls, the environment, customs and immigration, capital transfers, foreign exchange and currency controls, labour policies and land and water use and foreign ownership;

- arbitrary, inconsistent or unlawful government action;
- changing tax regimes, including the imposition of taxes in tax favourable jurisdictions such as the UAE;
- difficulties and delays in obtaining governmental and other approvals for operations or renewing existing ones; and
- inability to repatriate profits or dividends.

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

Financial performance is affected by general economic conditions

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

DIB uses different hedging strategies to minimise risk, including collateral and insurance (*Takaful*) that are intended to reduce the credit risk level to be 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. Future changes in regulatory, fiscal, taxation or other policies cannot be predicted and are beyond the control of DIB.

Business Risks

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

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 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 as part of their normal processes. In addition to monitoring credit limits, DIB manages the credit exposure relating to its trading activities by entering into collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure.

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

See also "*—DIB's business is subject to portfolio concentration*" 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 and considerable attention is paid by DIB to managing this risk. 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, consequently, DIB's business, results of operations, financial condition and prospects may be adversely affected.

Liquidity risk

Liquidity risk is the risk that DIB may be unable to meet its payment obligations when they fall due under normal and stressed circumstances.

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 rates (see "*—Political, economic and related considerations*" above). 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. As DIB receives a significant portion of its funding from deposits, DIB is subject to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their financings, thus causing a liquidity strain.

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 to which it is a party when due.

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

Legal and operational risk

Legal risk is the risk of losses occurring due to legal or regulatory action that invalidates or otherwise precludes performance by DIB or any of its respective counterparties under the terms of its contractual agreements. 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.

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

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

Competition

DIB faces competition in all of its business areas from locally incorporated and foreign banks operating in the UAE. DIB also faces competition from both Islamic banks and conventional banks. According to the UAE Central Bank (the **Central Bank**), there are currently 51 different banks (comprising of 23 locally incorporated banks and 28 foreign banks) licensed to operate inside the UAE (excluding the Dubai International Financial Centre).

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, it is likely to lead to a more competitive environment for DIB and other domestic financial institutions. This could have an adverse effect on DIB's business, results of operations, financial condition and prospects.

Any alteration to, or abolition of, the foreign exchange "peg" of the UAE dirham at a fixed exchange rate to the U.S. dollar will expose DIB to U.S. dollar foreign exchange movements against the UAE dirham

DIB maintains its accounts, and reports its results, in UAE dirham. The UAE dirham has been 'pegged' at a fixed exchange rate to the U.S. dollar since 22 November 1980. However, there can be no assurance that the UAE dirham will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that adversely affects DIB's results of operations and financial condition. Any such de-pegging, particularly if the UAE dirham weakens against the U.S. dollar, could have an adverse effect on DIB's business, results of operations, financial condition and prospects.

Dependence on key personnel

DIB's operations depend, in part, on the continued service of senior executives and other qualified personnel as well as their ability to recruit and retain skilled employees. The competition for such employees in the UAE is intense. Failure by DIB to manage its personnel needs successfully could have a material adverse effect on its business, results of operations, financial condition and prospects.

9/11 Litigation

In 2003 DIB was named as a defendant in eight civil lawsuits filed in various federal district courts in the United States that relate to the terrorist attacks on 11 September 2001. The plaintiffs in these lawsuits are 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 have paid claims to victims of the attacks. In total, the lawsuits named over 520 defendants. The defendants include among other entities numerous organisations, Islamic charities, and 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. It is not possible to quantify the liability of DIB in respect of the amounts claimed under such lawsuits due to the number of defendants involved and due to the difficulty in determining the monetary amount of damages suffered by the plaintiffs.

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, however the court accepted the motion to dismiss of 37 other defendants (being all of the other defendants whose motion to dismiss was being considered at the time). The New York Federal Court denied DIB's motion to dismiss due to the allegations by the plaintiffs that DIB was intentionally providing support to Al Qaeda and therefore, the court held that it had reasonable grounds to continue the actions by ordering the commencement of documentation discovery (whereas the other defendants whose motions to dismiss were accepted, were considered to have acted without knowledge).

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

Notwithstanding that the claims against certain defendants have been dismissed, DIB currently remains a joint defendant with over 100 other defendants (being the remaining defendants of the initial 520 defendants who have not been dismissed from the claims). Two cases against DIB were recently dismissed (one in August 2010 and the other in March 2011) as the plaintiffs did not wish to carry on with this litigation, such that six cases are pending as at the date of this Base Prospectus.

DIB is currently at the discovery phase of this litigation. The discovery phase requires the plaintiffs and the defendants to put forward evidence by means of documents and witnesses to approve their case while dismissing the other party's case. Completion of the documentary discovery phase was scheduled for 30 January 2012 but, at the request of the other parties, the court has extended the close of the documentary disclosure phase until 29 June 2012. During the documentary discovery phase, DIB will have to produce all the documents that it wishes to use in the defence of this case plus documents requested by the plaintiffs in the same proceedings. The depositions phase is expected to take place around July 2012 whereby DIB and the plaintiffs will call each other's witnesses to give evidence in this case. At the end of this stage, if DIB can prove that the plaintiffs have no basis in their claim, its lawyers can move the court for summary judgement with the intention of having the cases against DIB dismissed.

DIB believes that it has meritorious defences to these claims, and has defended itself, and intends to continue to defend itself, vigorously. No provision has been made as at 31 March 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.

Adverse publicity in relation to the 11 September 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 the DIB's business, results of operations, financial condition and prospects.

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

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

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

DIB's Islamic financing and investing assets, net of impairment provisions, have grown from AED 49.9 billion (U.S.$ 13.6 billion) as at 31 December 2009 to AED 52.5 billion (U.S.$ 14.3 billion) as at 31 March 2012.

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

DIB's business is subject to concentration risk

DIB's Islamic financing and investing assets are concentrated, geographically, in the UAE, where certain 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 56.8 per cent. of its consolidated total assets, or AED 52.5 billion (U.S.$ 14.3 billion), as at 31 March 2012. Of such total portfolio as at 31 March 2012, more than 97 per cent. of DIB's Islamic financing and investing assets were situated in the UAE.

DIB's customers' deposits constituted 82.5 per cent. of its total liabilities, or AED 68.2 billion (U.S.$ 18.6 billion), as at 31 March 2012, of which the majority were located in the UAE. As a result of the concentration of DIB's portfolio of Islamic financing and investment assets and customer deposit bases in the UAE, any deterioration in general economic conditions in the UAE or any failure of DIB to manage effectively its risk concentrations could have an adverse effect on its business, results of operations, financial condition and prospects (see further "*—Political, economic and related considerations*" above).

Real estate exposure

As at 31 December 2011, the Group's gross maximum exposure (that is to say, before taking into account collateral held or other credit enhancements) to the real estate and home financing sectors was 25.0 per cent. and 13.9 per cent., respectively. As at 31 December 2011, 30.9 per cent. and 22.9 per cent. of the Group's gross Islamic financing and investing assets were comprised of financings made to the real estate and consumer home finance sectors, respectively.

The Group's principal exposure to the consumer home finance sector is through its subsidiary, Tamweel PJSC (**Tamweel**), whose core business is the provision of *Sharia* compliant home financing solutions within the UAE. Tamweel's Islamic financing and investing assets is concentrated in the UAE residential financing sector and, accordingly, Tamweel's Islamic financing and investing assets are concentrated both geographically and by industry sector. As at 31 March 2012, DIB owned 58.3 per cent. of Tamweel's issued share capital.

Since the middle of 2008, a number of real estate projects in Dubai have been cancelled or delayed, principally reflecting liquidity shortages for developers, decreasing headline real estate prices and rental rates, increasing market uncertainty and negative sentiment. These factors adversely affected real gross domestic product (**GDP**) growth rates in the real estate and construction sectors in 2008, 2009 and 2010. According to Dubai's Real Estate Regulatory Authority (**RERA**), of the total number of registered projects at 31 May 2011, 129 projects have been completed since the beginning of 2009. In the last three years, RERA has additionally completed a review of more than 450 projects and, of these reviewed projects, 237 are expected to be completed in due course. 217 registered projects have been cancelled by RERA as at 31 May 2011.

Since late 2008 a real estate correction has been taking place in Dubai's real estate market such that, according to the Colliers International House Price Index published in the fourth quarter of 2010, the average price of residential property decreased by 50 per cent. between the third quarter of 2008 and the fourth quarter of 2010. In addition to the decline in property values, the economic downturn in Dubai has also led to a significant decrease in property sales volumes. Figures from the Dubai Land Department for 2009 show that there were 1,924 land transactions with a combined value of AED 18.1 billion. However, although 2010 saw an increase in the number of sale transactions to 2,105, the combined value of such transactions fell to AED 14.4 billion, representing an approximately 21 per cent. decline in the total value of sale transactions between 2009 and 2010.

A further real estate correction or default in DIB's main real estate-related clients, may have a material adverse effect on DIB's business, financial condition, results of operations and prospects.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH CERTIFICATES ISSUED UNDER THE PROGRAMME

Risks relating to the Assets

Ownership of the Assets

In order to comply with the requirements of Sharia, an ownership interest in the Assets comprised within the relevant Portfolio will pass to the Trustee under the relevant Purchase Agreement. The Trustee will declare a trust in respect of such Portfolio and the other Trust Assets in favour of the Certificateholders of the relevant Series pursuant to the relevant Trust Deed. Accordingly, Certificateholders will, through the ownership interest of the Trustee, have an ownership interest in the relevant Portfolio unless the transfer of the Portfolio is prohibited by, or ineffective under, any applicable law (see "*Transfer of the Assets*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of any Assets comprised within any Portfolio. Such Assets will be selected by DIB and the Certificateholders, the Trustee and the Delegate will have no ability to influence such selection. Only limited representations will be obtained from DIB in respect of the Assets of any Series. In particular, the precise terms of the Assets will not be known (including whether there are any restrictions on transfer or any further obligations required to be performed by DIB to give effect to the transfer of the Assets). No steps will be taken to perfect the transfer of the ownership interest (including registration) in the Assets with any relevant regulatory authority in the UAE or otherwise give notice to any lessee or obligor in respect thereof.

In addition, if and to the extent that a third party is able to establish a direct claim against the Trustee, the Delegate or any Certificateholders on the basis of any ownership interest in the Assets of any Series, DIB has agreed in the relevant Trust Deed to indemnify the Trustee, the Delegate and the Certificateholders against any such liabilities. In the event that DIB is unable to meet any such claims then the Certificateholders may suffer losses in excess of the original face amount invested.

Transfer of the Assets

No investigation has been or will be made as to whether any Assets may be transferred as a matter of the law governing the contracts (if any) underlying such Assets, the law of the jurisdiction where such assets are located or any other relevant law. No investigation will be made to determine if the relevant Purchase Agreement will have the effect of transferring the Assets of the relevant Series of Certificates.

Nevertheless, as indicated earlier, although, in order to comply with the requirements of Sharia, an ownership interest in the Assets comprised within the relevant Portfolio will pass to the Trustee under the relevant Purchase Agreement, the Certificateholders will not have any rights of enforcement as against the Assets and their rights are limited to enforcement against DIB of its obligation to purchase the Assets pursuant to the terms of the Purchase Undertaking. Accordingly, any such restriction on the ability of DIB to perfect the sale of the Assets to the Trustee is likely to be of limited consequence to the rights of the Certificateholders.

By way of further assurance, DIB has covenanted in the Purchase Undertaking that to the extent that any sale and purchase or transfer and assignment of any of the Assets is not valid or effective in any jurisdiction for any reason, it will make restitution in respect of those Assets, will fully accept all or any ownership interest the Trustee may have in the relevant Assets and, if that ownership interest is disputed or challenged, will fully indemnify the Trustee for the purpose of redemption in full or in part, as the case may be, of the relevant Series of Certificates and, accordingly, the amount payable under such indemnity will equal the relevant Exercise Price (see "*Description of the Principal Transaction Documents – Purchase Undertaking*").

DIB has agreed under the terms of the Purchase Undertaking to submit to the exclusive jurisdiction of the Dubai International Financial Centre Courts (the **DIFC Courts**) in respect of any dispute, claim, difference or controversy arising out of or in connection with the Purchase Undertaking, subject to the right of the Trustee (or the Delegate on behalf of the Certificateholders) to elect to bring proceedings in any other court or courts of competent jurisdiction. 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. None of DIB, the Trustee or the Delegate are connected to the Dubai International Financial Centre (the **DIFC**).

If, in respect of any Series, DIB fails to purchase the relevant Assets in accordance with Clause 3.3 of the Purchase Undertaking, the Delegate (on behalf of the relevant Certificateholders) may, subject to the matters set out in Condition 15 and the terms of the Master Trust Deed, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking against DIB by commencing proceedings in the DIFC Courts. The DIFC Courts should respect the choice of English law as the governing law of the Purchase Undertaking.

Investors should note that there is a risk that the DIFC Courts may rule that the DIFC Courts are not the appropriate forum to resolve any dispute relating to DIB's obligation under Clause 3.3 of the Purchase Undertaking to purchase the relevant real estate-based Assets situated outside the DIFC, and that any dispute relating to such assets should be resolved by the courts where those assets are located. Whether the DIFC Courts would refuse to accept jurisdiction on this basis is unclear under Dubai law and, as far as each of DIB and the Trustee are aware, no proceedings have yet been taken in the DIFC Courts to determine if they would take this approach.

However, any dispute relating to the failure by DIB to purchase the relevant Assets is likely to arise in the context of a challenge by DIB (or by any administrator, liquidator or receiver of DIB) of the validity of the Purchase Undertaking on the basis that the Trustee does not hold a valid interest in the relevant real estate-based Assets purported to be purchased under Clause 3.3 of the Purchase Undertaking. This argument is likely to be based on the failure to register with the Dubai Land Department (or any equivalent department or authority which is responsible for such registration at the applicable time) the initial sale and transfer of those Assets under the relevant Supplemental Purchase Contract. As described above, if DIB (or any administrator, liquidator or receiver of DIB) disputes or challenges the rights, benefits and entitlements of the Trustee to any of the Assets in this way, DIB has agreed in Clause 2.2(c) of the Purchase Undertaking to indemnify the Trustee for the purpose of redemption in full (or in part, as the case may be) of the relevant Series in an amount equal to the relevant Exercise Price, and the Delegate (subject as set out above) would be able to bring proceedings in the DIFC Courts to enforce this obligation. In making a ruling with respect to DIB's obligation to indemnify the Trustee, the DIFC Courts should apply English law to that obligation. In applying English law, the DIFC Courts shall have the discretion to sever DIB's obligation to purchase the relevant real estate-based Assets from the remaining provisions of the Purchase Undertaking, including the indemnity provision set out in Clause 2.2(c) and treat that indemnity provision as an independent and separately enforceable obligation of DIB and, therefore, are (subject to any valid defences raised by DIB) likely to award a judgment in favour of the Delegate (on behalf of the relevant Certificateholders) in accordance with the terms of that indemnity.

Under Article 7 of Law No. 16 of 2011, any final and unappealable judgment, order or award made by the DIFC Courts in favour of the Delegate (on behalf of the relevant Certificateholders) must, upon application by the Delegate to the Dubai Court of Execution, be enforced against DIB by the Dubai Court of Execution without that court being able to reconsider the merits of the case.

Investors should note however that, as at the date of this Base Prospectus, Law No. 16 of 2011 remains untested and there is therefore no certainty as to how the DIFC Courts intend to exercise their jurisdiction under the new law should any party dispute the right of the DIFC Courts to hear a particular dispute where such parties are unconnected to the DIFC.

Risks Relating to the Certificates

The Certificates are limited recourse obligations

Certificates to be issued under the Programme are not debt obligations of the Trustee. Instead, the Certificates represent an undivided ownership interest solely in the relevant Trust Assets. Recourse to the Trustee in respect of each Series is limited to the Trust Assets of that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders of the relevant Series will be against DIB to perform its obligations under the Transaction Documents to which it is a party. Certificateholders will have no recourse to any assets of the Trustee or DIB in respect of any shortfall in the expected amounts due under the relevant Trust Assets. DIB is obliged to make certain payments under the Transaction Documents to which it is a party directly to the Trustee, and the Delegate will have direct recourse against DIB to recover such payments due to the Trustee pursuant to the Transaction Documents to which it is a party. In the absence of default by the Delegate, investors have no direct recourse to DIB and there is no assurance that the net proceeds of the realisation of any enforcement action with respect to the Trust Assets (which, as described above, will be by way of enforcing DIB's and the Trustee's respective obligations under the Transaction Documents to which they are a party) will be sufficient to make all payments due in respect of the relevant Certificates. After enforcing or realising the rights in respect of the Trust Assets of a Series (in the manner described above) and distributing the net proceeds of such Trust Assets in accordance with Condition 4.2, the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and neither the Delegate nor any Certificateholder may take any further steps against the Trustee to recover any further sums in respect of such 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 except pursuant to the Transaction Documents (which includes the Purchase Undertaking). The sole right of the Trustee, the Delegate and the Certificateholders against DIB shall be to enforce the obligation of DIB to perform its obligations under the Transaction Documents to which it is a party.

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Certificates of any Series 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 those 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 Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the relevant Certificates and the financial and other risks associated with an investment in the relevant Certificates. An investor in Certificates must be prepared to hold the relevant Certificates for an indefinite period of time or until their maturity. Application has been made for the listing of certain Series to be issued under the Programme on the Irish Stock Exchange but there can be no assurance that any such listing will occur or will enhance the liquidity of the Certificates of the relevant Series.

The Certificates may be subject to early redemption

In the event that the amount payable on the Certificates of any Series is required to be increased to include additional amounts in certain circumstances and/or DIB is required to pay additional amounts pursuant to certain Transaction Documents, in each case as a result of certain changes affecting taxation in the Cayman Islands (in the case of the Trustee) or the UAE (in the case of DIB), or in each case any political subdivision or any authority thereof or therein having power to tax, the Trustee may redeem all but not some only of the Certificates upon giving notice in accordance with the Terms and Conditions of the relevant Certificates.

If so provided in the applicable Final Terms, a Series may be redeemed early at the option of the Trustee. Any such early redemption feature of any Certificate is likely to limit its market value. During any period when the Trustee may elect to redeem Certificates, the market value of those Certificates generally will not rise substantially above the dissolution amount payable. This also may be true prior to any redemption period. The Trustee may be expected to redeem Certificates when DIB's cost of borrowing is lower than the profit rate on the Certificates. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective profit rate as high as the profit rate on the Certificates being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider re-investment risk in light of other investments available at that time.

Risk factors relating to enforcement

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

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 and/or to claim damages, as appropriate, which may be costly and time consuming.

Under current Dubai law, the Dubai courts are unlikely to enforce an English court judgment without re-examining the merits of the claim and (save as described above under "– *Risks Relating to the Assets – Transfer of the Assets*") may not observe the choice by the parties of English law as the governing law of the transaction. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law, by a court in the UAE, may not accord with the interpretation of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE.

The UAE is a civil law jurisdiction and judicial precedents in Dubai have no binding effect on subsequent decisions. In addition, there is no formal system of reporting court decisions in Dubai. These factors create greater judicial uncertainty than would be expected in other jurisdictions.

Each of the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Service Agency Agreement, the Purchase Undertaking, the Sale Undertaking and the Certificates are governed by English law and the parties to such documents (other than in the case of the Purchase Undertaking) have agreed to refer any unresolved dispute in relation to such documents to arbitration under the Arbitration Rules of the LCIA in London, England.

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 First Instance, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention. There is, however, no system of binding judicial precedent in the UAE and it is unclear if these decisions are subject to any appeal. In practice, therefore, how the New York Convention provisions would be interpreted and applied by the Dubai courts, and whether the Dubai courts will enforce a foreign arbitration award in accordance with the New York Convention, remains largely untested.

Compliance with UAE bankruptcy law may affect DIB's ability to perform its obligations under the Transaction Documents to which it is a party

In the event of DIB's insolvency, UAE bankruptcy law may adversely affect DIB's ability to perform its obligations under the Transaction Documents to which it is a party and, in turn, affect the Trustee's ability to perform its obligations in respect of the Certificates. There is little precedent to predict how claims by or on behalf of the Certificateholders and/or the Delegate 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.

A court may not grant an order for specific performance

In the event that DIB fails to perform its obligations under any Transaction Document to which it is a party, the potential remedies available to the Trustee and the Delegate include (i) obtaining an order for specific performance of DIB's obligations, or (ii) a claim for damages.

There is no assurance that a court will provide an order for specific performance, as this is generally a matter for the discretion of the relevant court. 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 such breach. No assurance is provided on the level of damages which a court may award in the event of a failure by DIB to perform its obligations set out in the Transaction Documents to which it is a party.

Change of law

The structure of each issue of Certificates under the Programme is based on English law, Cayman Islands law, the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE, the laws of the DIFC and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible change to, or interpretation of, English, Cayman Islands or UAE, Dubai or DIFC law or administrative practices in such jurisdiction after the date of this Base 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 to which it is a party.

US persons investing in Certificates may have indirect contact with countries sanctioned by the Office of Foreign Assets Control of the U.S. Department of Treasury as a result of the Trustee's or DIB's investments in and business with countries on the sanctions list

The Office of Foreign Assets Control of the U.S. Department of Treasury (**OFAC**) administers regulations that restrict the ability of US persons to invest in, or otherwise engage in business with, certain countries, including Iran and Sudan, and specially designated nationals (together **Sanction Targets**). Neither the Trustee nor DIB itself is a Sanction Target and OFAC regulations do not prohibit US persons from investing in, or otherwise engaging in business with, either the Trustee or DIB. Although DIB's current policy is not to engage in any business with countries which are Sanction Targets, to the extent that either the Trustee or DIB invests in, or otherwise engages in business with, Sanction Targets in the future, US persons investing in either the Trustee or DIB may incur the risk of indirect contact with Sanction Targets.

To date, neither the Trustee nor DIB has made any investments or engaged in any business with any Sanction Targets. However, to the extent that either the Trustee or DIB increases its investments in or business with Sanction Targets, US persons investing in Certificates may increase their risk of indirect contact with Sanction Targets and possible violations of OFAC sanctions.

Additional risk factors

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; 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 to which it is a party are valid and binding under the laws of the UAE and applicable in Dubai.

Reliance on Euroclear and Clearstream, Luxembourg procedures

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

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

Holders of ownership interests in a 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.

Sharia rules

The Fatwa and Sharia Supervisory Board of DIB in liaison with Dar Al Sharia Legal & Financial Consultancy LLC and the HSBC Amanah Central Sharia Committee have confirmed that the Transaction Documents are, in their view, Sharia compliant. However, there can be no assurance that the Transaction Documents or any issue and trading of any Certificates will be deemed to be Sharia compliant by any other Sharia board or Sharia scholars. None of the Trustee, DIB, Dar Al Sharia Legal & Financial Consultancy LLC, the Delegate or the Dealers makes any representation as to the Sharia compliance of any Series and potential investors are reminded that, as with any Sharia views, differences in opinion are possible. Potential investors should obtain their own independent Sharia advice as to the compliance of the Transaction Documents and the issue and trading of any Series with Sharia principles.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties would, if in dispute, either be the subject of arbitration (or, in the case of the Purchase Undertaking, court proceedings) under English law or court proceedings under the laws of (i) Dubai and, to the extent applicable in Dubai, the federal laws of the UAE or (ii) England and Wales. In such circumstances, the arbitrator or, as the case may be, judge may apply the relevant law of the Transaction Document rather than core Sharia principles in determining the obligation of the parties.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms. The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

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

In relation to any issue of Certificates which have a denomination consisting of the minimum Specified Denomination (as defined in the Conditions) 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 Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified 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 Specified Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Specified 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 a Specified 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 Specified Denomination may be illiquid and difficult to trade.

Consents to variation of Transaction Documents and other matters

The Conditions of the Certificates contain provisions for calling meetings of Certificateholders to consider matters affecting their interests generally. 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 Master Trust Deed contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Master Trust Deed 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 relevant Certificateholders and is other than in respect of a Reserved Matter (as defined in the Master Trust Deed). Unless the Delegate otherwise agrees, any such modification shall as soon as practicable thereafter be notified to the relevant Certificateholders and shall in any event be binding upon the relevant Certificateholders.

European Monetary Union may cause Certificates denominated in certain currencies to be redenominated in euro

If Certificates are issued under the Programme which are denominated in the currency of a country which, at the time of issue, has not adopted the euro as its sole currency and, before the relevant Certificates are redeemed, the euro becomes the sole currency of that country, a number of consequences may follow including, but not limited to: (i) all amounts payable in respect of the relevant Certificates may become payable in euro, (ii) applicable law may allow or require such Certificates to be redenominated into euro and additional measures to be taken in respect of such Certificates and (iii) there may no longer be available published or displayed rates for deposits in such currency used to determine the rates of Periodic Distribution Amount on such Certificates. Any of these or any other consequences could adversely affect the holders of the relevant Certificates.

Exchange rate risks and exchange controls

The Trustee will make all payments on the Certificates. 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 the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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. The Trustee does not have 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 the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Certificates, (2) the Investor's Currency equivalent value of the principal payable on the Certificates and (3) 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 payment of any Periodic Distribution Amount or Dissolution 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 the Specified Currency for any particular Certificate may not be available at such Certificate's maturity.

Risk factors relating to taxation

Taxation risks on payments

Payments made by DIB to the Trustee under the Transaction Documents and payments by the Trustee in respect of the Certificates could become subject to taxation. The Service Agency Agreement requires the Service Agent, each of the Purchase Undertaking and the Sale Undertaking requires DIB, and the Master Trust Deed requires DIB to pay additional amounts in the event that any withholding or deduction is required by applicable law to be made in respect of payments made by it to the Trustee which are intended to fund Periodic Distribution Amounts and Dissolution Amounts. Condition 11 provides that the Trustee is required to pay additional amounts in respect of any such withholding or deduction imposed by Cayman Islands law in certain circumstances. In the event that the Trustee fails to pay any such additional amounts in respect of any such withholding or deduction on payments due in respect of the Certificates to Certificateholders, DIB has 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 11 in respect of any withholding or deduction in respect of any tax as set out in that Condition.

EU Savings Directive

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

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

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

U.S. Foreign Account Tax Compliance Withholding

The Trustee, the Paying Agents, Euroclear, Clearstream, Luxembourg and any other financial institutions through which payments on the Certificates are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of (i) any Certificates treated as debt for U.S. federal tax purposes that are issued after 31 December 2012 or are materially modified from that date and (ii) any Certificates treated as equity for U.S. federal tax purposes, whenever issued, pursuant to sections 1471 through 1474 of the U.S. Foreign Account Tax Compliance Act (**FATCA**) or similar law implementing an intergovernmental approach to FATCA. This withholding tax may be triggered if (i) the Trustee is a foreign financial institution (**FFI**) (as defined in FATCA) which enters into and complies with an agreement with the U.S. Internal Revenue Service (**IRS**) to provide certain information on its account holders (making the Trustee a **Participating FFI**), (ii) the Trustee has a positive "passthru percentage" (as defined in FATCA), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of such Participating FFI, or (b) any FFI that is an investor, or through which payment on such Certificates is made, is not a participating FFI.

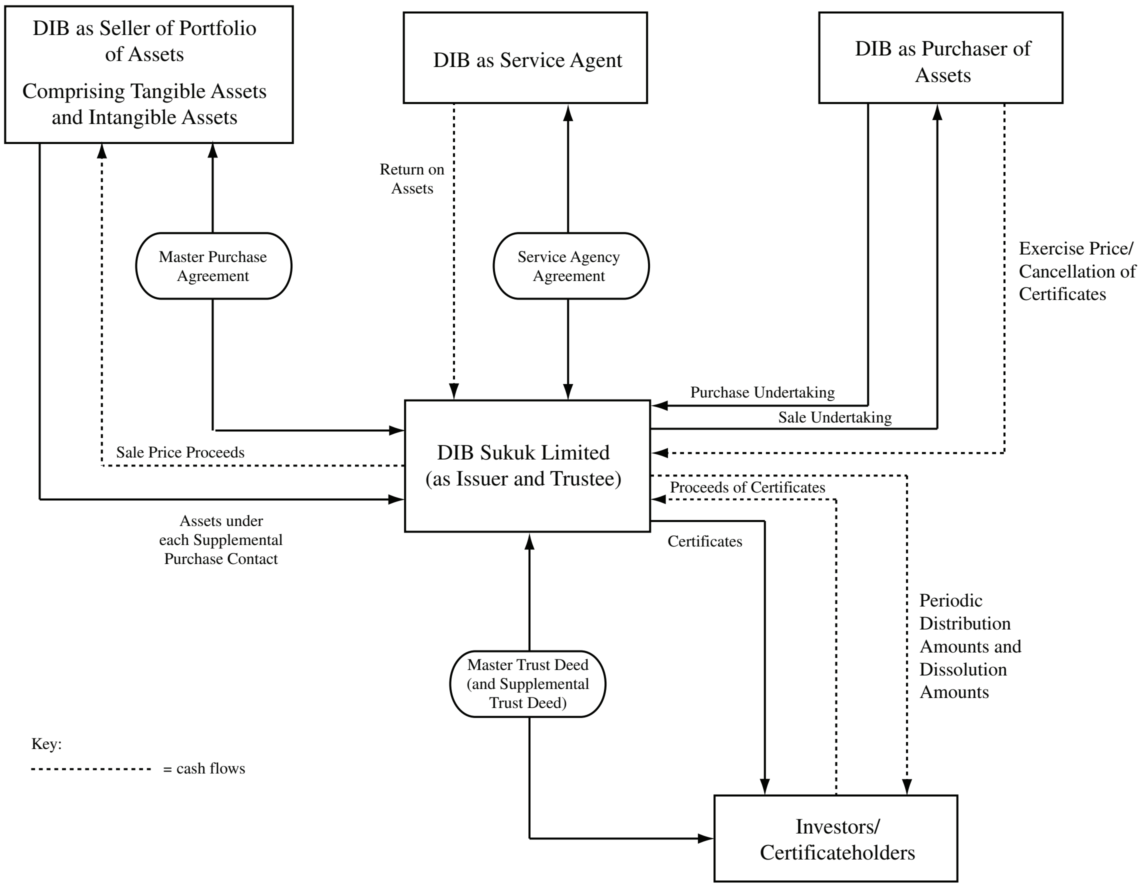
The application of FATCA to profit, principal or other amounts paid with respect to the Certificates is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from profit, principal or other payments on the Certificates, neither the Trustee nor the Delegate nor DIB nor any paying agent nor any other person would, pursuant to the Conditions of the Certificates or any of the Transaction Documents be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less profit or principal than expected. Holders of Certificates should consult their own tax advisers on how these rules may apply to payments they receive under the Certificates.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. The application of FATCA to Certificates issued after 31 December 2012 (or whenever issued, in the case of Certificates treated as equity for U.S. federal tax purposes) may be addressed in the relevant Final Terms or a Supplement to this Base Prospectus, as applicable.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Series issued. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents and the Terms and Conditions of the Certificates set out elsewhere in this Base Prospectus for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.

Structure Diagram



Principal cash flows

Payments by the Certificateholders and the Trustee

On the Issue Date of each Series of Certificates, the Trustee will use the proceeds for the relevant Series to purchase from DIB a portfolio (the **Initial Portfolio**) of (i) real estate assets (**Real Estate Ijara Assets**) (including the related real estate *ijara* contracts and all rights thereunder; provided, however, that such real estate asset is in existence on the date on which it enters the relevant Initial Portfolio), (ii) non-real estate Ijara assets (each such asset, a **Non-Real Estate Ijara Asset** and, together with the Real Estate Ijara Assets, each an **Ijara Asset**) (including the related non-real estate *ijara* contracts and all rights thereunder; provided, however, that such non-real estate asset is in existence on the date on which it enters the relevant Initial Portfolio); (iii) any asset, other than an Ijara Asset, which is an income generating asset (including, without limitation, any *sukuk* or trust certificates) that has associated with it underlying tangible assets and which is originated, held or owned by DIB in accordance with the Sharia principles laid down by DIB's Fatwa and Sharia Supervisory Board (including any agreements or documents relating to such asset) (each such asset, an **Other Tangible Asset** and, together with the Ijara Assets, each a **Tangible Asset**); and (iv) *murabaha* receivables under a *murabaha* (sale of commodities or goods on a cost plus basis) contract, outstanding deliverable assets under *salam* financing (commodities or goods or assets of a specified quality and quantity) and *ijara mousoofah fizzimmah* (forward *ijara*) real estate and non-real estate) assets (each such asset, an **Intangible Asset** and, together with the Tangible Assets, each an **Asset** or an **Income Generating Asset**).

The Assets which comprise the portfolio from time to time are together referred to in this Base Prospectus as the **Portfolio**. The Service Agent will be appointed as service agent to service each Portfolio under the terms of the Service Agency Agreement.

Periodic Distribution Payments

Prior to each Periodic Distribution Date, the Service Agent will pay to the Trustee (by way of a payment into the relevant Transaction Account) an amount reflecting returns generated (other than returns in the nature of sale, capital or principal payments) by the relevant Portfolio (**Portfolio Income Revenues**) during the relevant Distribution Period, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the relevant Series and shall be applied by the Trustee for that purpose.

In the event that the Portfolio Income Revenues to be paid by the Service Agent into the relevant Transaction Account on any Distribution Determination Date are greater than the Required Amount (as defined below) (having first repaid (i) any Liquidity Facility and/or (ii) any Service Agency Liability Amounts for the relevant Distribution Period) for the relevant Series on the immediately following Periodic Distribution Date, the amount of any excess shall be retained by the Service Agent as a reserve and credited to a separate book-entry ledger account (in respect of each Series, the **Income Reserve Collection Account**) maintained by the Service Agent.

If there is a shortfall on any Distribution Determination Date (after transfer of the Portfolio Income Revenues into the relevant Transaction Account as described above) between (i) the amounts standing to the credit of the relevant Transaction Account and (ii) an amount (the **Required Amount**) equal to the aggregate of the Periodic Distribution Amounts and any other amounts payable by the Trustee in respect of the relevant Certificates on the immediately following Periodic Distribution Date (a **Shortfall**), the Service Agent shall first apply the amounts standing to the credit of the relevant Income Reserve Collection Account (if any) towards such Shortfall by transferring into the relevant Transaction Account from such Income Reserve Collection Account on that Distribution Determination Date an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of such Income Reserve Collection Account). If, having applied such amounts standing to the credit of the relevant Reserve Collection Account (if any) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, any part of the Shortfall still remains, the Service Agent may either:

(a) provide Sharia compliant funding to the Trustee itself; or

(b) procure Sharia compliant funding from a third party to be paid to the Trustee,

in each case in the amount required to ensure that there is no Shortfall and on terms that such funding is repayable from Portfolio Income Revenues in the future or on the date on which the Certificates of the relevant Series are redeemed in full (each a **Liquidity Facility**).

Dissolution Payments

On each Scheduled Dissolution Date, the Trustee will have the right under the Purchase Undertaking to require DIB to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio. The exercise price payable by DIB is intended to fund the Final Dissolution Amount payable by the Trustee under the relevant Certificates.

The Trust in relation to any Series may be dissolved prior to the relevant Scheduled Dissolution Date for the following reasons: (i) redemption following a Dissolution Event, (ii) an early redemption for tax reasons, (iii) if so specified in the applicable Final Terms, at the option of the Trustee (following the receipt of an Exercise Notice from DIB in accordance with the terms of the Sale Undertaking) on an Optional Dissolution Date and (iv) if so specified in the applicable Final Terms, at the option of the Certificateholders on any Certificateholder Put Option Date.

In the case of sub-paragraphs (i) to (iii) above inclusive, the amounts payable by the Trustee on the due date for dissolution will be funded in a similar manner as for the payment of the Final Dissolution Amount. Upon the exercise by Certificateholders of the option described in sub-paragraph (iv), the Trustee will redeem the relevant Certificates on the Certificateholder Put Option Date at the Optional Dissolution Amount (Certificateholder Put). Any such redemption shall be funded through the exercise by the Trustee of its right under the Purchase Undertaking to require DIB to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the relevant Portfolio with an aggregate Value (as defined below under "*Summary of the Principal Transaction Documents – Service Agency Agreement*") no greater than the aggregate face amount of the Certificates to be redeemed.

OVERVIEW OF THE PROGRAMME

The following is an overview of the principal features of the Programme. This overview does not contain all of the information that an investor should consider before investing in Certificates and is qualified in its entirety by the remainder of this Base Prospectus and the applicable Final Terms. Each investor should read the entire Base Prospectus and the applicable Final Terms carefully, especially the risks of investing in Certificates issued under the Programme discussed under "Risk Factors".

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospective Directive.

Words and expressions defined in "Structure Diagram and Cashflows", "Form of the Certificates" and "Terms and Conditions of the Certificates" shall have the same meanings in this overview.

Issuer and Trustee:	DIB Sukuk Limited, a limited liability exempted company incorporated in accordance with the laws of, and formed and registered in, the Cayman Islands with registered number 268522 and its registered office at MaplesFS Limited, P.O. Box 1093, Queensgate House, Grand Cayman KY1-1102, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Seller and Service Agent:	Dubai Islamic Bank PJSC
Risk Factors:	There are certain factors that may affect the Trustee's ability to fulfil its obligations under Certificates issued under the Programme, and DIB's obligations under the Transaction Documents to which it is a party. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme. All of these factors are set out under "*Risk Factors*" above.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1 each, of which 250 shares are fully paid up and issued. The Trustee's entire issued share capital is held by MaplesFS Limited on trust for charitable purposes.
Administration of the Trustee:	The affairs of the Trustee are managed by MaplesFS Limited (the **Trustee Administrator**), who will provide, amongst other things, certain administrative services for and on behalf of the Trustee pursuant to a Corporate Services Agreement dated on or about 10 May 2012 between the Trustee and the Trustee Administrator (the **Corporate Services Agreement**). The Trustee Administrator's registered office is P.O. Box 1093, Queensgate House, Grand Cayman KY1 – 1102, Cayman Islands.
Arrangers:	Deutsche Bank AG, London Branch Dubai Islamic Bank PJSC HSBC Bank plc
Dealers:	Deutsche Bank AG, London Branch Dubai Islamic Bank PJSC Emirates NBD Capital Limited HSBC Bank plc National Bank of Abu Dhabi P.J.S.C. and any other Dealer appointed from time to time either generally in respect of the Programme or in relation to a particular Series of Certificates.

Delegate:	Deutsche Trustee Company Limited Pursuant to the Master Trust Deed, 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 Master Trust Deed. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Seller and/or the Service Agent and/or DIB following a Dissolution Event.
Principal Paying Agent:	Deutsche Bank AG, London Branch
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Certain Restrictions:	Each Series denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"). The proceeds of each Series will not be accepted in the United Kingdom except in compliance with applicable law, including article 5 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.
Programme Size:	Up to U.S.$2,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Trustee and DIB may increase the size of the Programme in accordance with the terms of the Programme Agreement.
Issuance in Series:	The Certificates will be issued in Series, the specific terms of which will be completed in the applicable Final Terms.
Distribution:	Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Trustee, DIB and the relevant Dealer.
Maturities:	The Certificates will have such maturities as may be agreed between the Trustee, DIB and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee or the relevant Specified Currency.
Issue Price:	Certificates may be issued at any price on a fully paid basis, as specified in the applicable Final Terms. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, DIB and the relevant Dealer at the time of issue in accordance with prevailing market conditions.
Form of Certificates:	The Certificates will be issued in registered form as described in "*Form of the Certificates*". The Certificates of each Series 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 each Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. See "*Form of the Certificates*". Definitive Certificates evidencing holdings of Certificates will be issued in exchange

	for ownership interests in a Global Certificate only in limited circumstances.
Clearance and Settlement:	Holders of the Certificates must hold their interest in the relevant 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 clearance systems.
Face Amount of Certificates:	The Certificates will be issued in such face amounts as may be agreed between the Trustee, DIB and the relevant Dealer save that the minimum face amount of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above, and save that the minimum face amount of each Certificate admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Certificates are issued in a currency other than euro, the equivalent amount in such currency).
Status of the Certificates:	Each Certificate will evidence an undivided ownership interest of the Certificateholders in the Trust Assets of the relevant Series, will be a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee and will rank *pari passu*, without any preference or priority, with all other Certificates of the relevant Series issued under the Programme. The Trust Assets of the relevant Series will be all of the Trustee's rights, title, interest and benefit, present and future, in, to and under (i) the relevant Portfolio, (ii) the Transaction Documents (other than (A) in relation to any representations given to the Trustee by DIB pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (B) the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed), (iii) all monies standing to the credit of the relevant Transaction Account from time to time, and all proceeds of the foregoing listed (i) to (iii) (the **Trust Assets**), and such Trust Assets will be held upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder for the relevant Series.
Periodic Distributions:	Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms.
Redemption of Certificates:	Unless the Certificates are previously redeemed or purchased and cancelled, the Certificates shall be redeemed by the Trustee at the relevant Dissolution Amount and on the relevant Scheduled Dissolution Date specified in the applicable Final Terms and the Trust in relation to the relevant Series will be dissolved by the Trustee.
Dissolution Events:	Upon the occurrence of any Dissolution Event, the Certificates may be redeemed in full on the Dissolution Date at the relevant Dissolution Amount, together with any accrued but unpaid Periodic Distribution Amount and the relevant Return Accumulation Period may be adjusted accordingly. See Condition 14.

Early Dissolution for Tax Reasons:

Where (i) DIB has determined that the Trustee has or will become obliged to pay any additional amounts in respect of the Certificates pursuant to Condition 11 or (ii) DIB has or will become obliged to pay any additional amounts under the Service Agency Agreement, the Purchase Undertaking and/or the Sale Undertaking, in each case as a result of a change in the laws of a Relevant Jurisdiction (as defined in the Conditions) and such obligation cannot be avoided by the Trustee or DIB, as applicable, taking reasonable measures available to it, the Trustee may, following receipt of an exercise notice from DIB pursuant to the Sale Undertaking, redeem the Certificates in whole but not in part at an amount equal to the relevant Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amounts on the relevant Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable, the Dissolution Date must be a Periodic Distribution Date.

Optional Dissolution Right:

If so specified in the applicable Final Terms, the Trustee may, following receipt of an exercise notice from DIB pursuant to the Sale Undertaking, redeem in whole but not in part the Certificates of the relevant Series at the relevant Optional Dissolution Amount (Call) on the relevant Optional Dissolution Date and, if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable, the Optional Dissolution Date must be a Periodic Distribution Date.

If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Final Terms.

For Sharia reasons, the Optional Dissolution (Call) and the Certificateholder Put Option cannot both be specified as applicable in any single Series.

Certificateholder Put Option:

If so specified in the applicable Final Terms, Certificateholders may elect to redeem their Certificates on any Certificateholder Put Option Date(s) specified in the applicable Final Terms at an amount equal to the relevant Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts in accordance with Condition 10.4. Following the payment by DIB of the relevant exercise price under the Purchase Undertaking, the Trustee will redeem the relevant Certificates on the relevant Certificateholder Put Option Date.

For Sharia reasons, the Certificateholder Put Option and Optional Dissolution (Call) cannot both be specified as applicable in any single Series.

Cancellation of Certificates held by DIB and/or any of its Subsidiaries:

Pursuant to Condition 13, DIB and/or any of its Subsidiaries may at any time purchase Certificates in the open market or otherwise. If DIB wishes to cancel such Certificates purchased by it and/or any of its Subsidiaries, DIB will deliver those Certificates to the Principal Paying Agent for cancellation. DIB may also exercise its option under the Sale Undertaking to require the Trustee to transfer to DIB an undivided ownership interest (each a **Cancellation Interest**) in the relevant Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so delivered to the Principal Paying Agent for cancellation and, upon such cancellation, the Trustee will transfer those Assets to DIB, all as more particularly described in the Sale Undertaking. Each Cancellation Interest will be calculated as the ratio, expressed as a percentage, of the aggregate outstanding face amount of the relevant Certificates to be cancelled to the aggregate face amount of the Certificates outstanding immediately prior to the cancellation of such Certificates.

Asset Substitution: The Service Agent may substitute Assets in accordance with the relevant provisions of the Service Agency Agreement and the Sale Undertaking, provided that no Dissolution Event has occurred and is continuing, the substitute assets are Assets and the Value of such substitute assets shall have an aggregate Value which is not less than the aggregate Value of the Assets to be so substituted.

Withholding Tax: All payments by DIB under, or pursuant to, the Purchase Undertaking and Sale Undertaking and all payments by the Service Agent under the Service Agency Agreement shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction unless the withholding is required by law. In the event that any such withholding or deduction is made, DIB and/or the Service Agent, as the case may be, will be required to pay additional amounts so that the Trustee will receive the full amounts that it would have received in the absence of such withholding or deduction.

All payments in respect of Certificates by the Trustee shall be made without withholding or deduction for, or on account of, any taxes, levies, imposts, duties, fees, assessments or governmental charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction. In the event that any such withholding or deduction is made, the Trustee will, save in the limited circumstances provided in Condition 11, be required to pay additional amounts so that the holders of the Certificates will receive the full amounts that they would have received in the absence of such withholding or deduction.

Negative Pledge: The Purchase Undertaking contains a negative pledge given by DIB. See "*Summary of the Principal Transaction Documents – Purchase Undertaking*".

Cross Default: The Purchase Undertaking contains a cross default provision in relation to DIB. See "*Summary of the Principal Transaction Documents – Purchase Undertaking*".

Trustee Covenants: The Trustee has agreed to certain restrictive covenants as set out in Condition 5.

Ratings: The ratings assigned to certain Series to be issued under the Programme will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to the relevant Series of Certificates will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Certificateholder Meetings: A summary of the provisions for convening meetings of Certificateholders of each Series to consider matters relating to their interests as such is set out in Condition 18.

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 Certificates issued under the Programme to be admitted to the Official List and for such Certificates to be admitted to trading on the Regulated Market. Certificates may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Trustee, DIB and the relevant Dealer in relation to the Series. Certificates which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Certificates are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Transaction Documents:	The Transaction Documents are the Master Trust Deed, each Supplemental Trust Deed, the Agency Agreement, the Master Purchase Agreement, each Supplemental Purchase Contract, the Service Agency Agreement, the Purchase Undertaking and the Sale Undertaking.
Governing Law and Dispute Resolution:	The Certificates of each Series and any non-contractual obligations arising out of or in connection with the Certificates of each Series will be governed by, and construed in accordance with, English law. The Master Trust Deed, each Supplemental Trust Deed, the Programme Agreement, the Agency Agreement, the Service Agency Agreement, the Purchase Undertaking, the Sale Undertaking and any non-contractual obligations arising out of or in connection with the same will be governed by English law. In respect of any dispute under any such agreement or deed (other than the Purchase Undertaking) to which it is a party, DIB has consented to arbitration in London under the LCIA Arbitration Rules. Any dispute may also be referred to the courts in England (who shall have exclusive jurisdiction to settle any dispute arising from such documents). DIB has agreed to submit to the jurisdiction of the DIFC Courts in respect of any dispute under the Purchase Undertaking (subject to the right of the Trustee and the Delegate to require any dispute to be resolved by any other court of competent jurisdiction). Each of the Master Purchase Agreement, each Supplemental Purchase Contract, each Sale Agreement entered into under the Purchase Undertaking and each Sale Agreement or Transfer Agreement entered into under the Sale Undertaking will be governed by the laws of Dubai and, to the extent applicable in Dubai, the federal laws of the UAE, and will be subject to the non-exclusive jurisdiction of the Dubai courts. The Corporate Services Agreement will be governed by the laws of the Cayman Islands and will be subject to the non-exclusive jurisdiction of the courts of the Cayman Islands.
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 to which it is a party 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.
Limited Recourse:	Each Certificate represents solely an undivided ownership interest in the relevant Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available for the relevant Trust Assets. Certificateholders will otherwise have no recourse to any assets of the Trustee or DIB in respect of any shortfall in the expected amounts due under the relevant Trust Assets to the extent the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished.
Selling Restrictions:	There are restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United States, the European Economic Area (including the Republic of Ireland and the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Kingdom of Saudi Arabia, Kingdom of Bahrain, Qatar (excluding the Qatar Financial Centre), Singapore, Hong Kong and Malaysia.
United States Selling Restrictions:	Regulation S, Category 2.

FORM OF THE CERTIFICATES

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

Each Series will initially be represented by a global certificate in registered form (a **Global Certificate**). Global Certificates will be deposited with a common depositary for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and will be registered in the name of a nominee for the common depositary. Persons holding ownership interests in Global Certificates 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.

Payments of any amount in respect of each Global Certificate will, in the absence of any provision to the contrary, be made to the person shown on the relevant Register (as defined in Condition 1.2) as the registered holder of the relevant Global Certificate. 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 Certificates or for maintaining, supervising or reviewing any records relating to such ownership interests.

Payment of any amounts in respect of Certificates in definitive form will, in the absence of any provision to the contrary, be made to the persons shown on the relevant Register on the relevant Record Date (as defined in Condition 8.1) immediately preceding the due date for payment in the manner provided in the Conditions.

Interests in a 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 if an Exchange Event occurs. For these purposes, **Exchange Event** means that (i) a Dissolution Event (as defined in Condition 14) has occurred and is continuing, or (ii) the Trustee has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available. In the event of the occurrence of an Exchange Event, any of the Trustee or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Global Certificate) may give notice to the Registrar requesting exchange.

In such circumstances, the relevant 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 15 days following the request for exchange for completion and dispatch to the relevant Certificateholders. A person having an interest in a 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.

General

For so long as any of the Certificates is represented by a Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular face amount of such Certificates in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the 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 treated by the Trustee, the Delegate and their respective agents as the holder of such face amount of such Certificates for all purposes other than with respect to any payment on such face amount of such Certificates, for which purpose the registered holder of the relevant Global Certificate shall be treated by the Trustee, the Delegate and their respective agents as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate and the expressions **Certificateholder** and **holder of Certificates** and related expressions shall be construed accordingly.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series issued under the Programme.

[*Date*]

DIB Sukuk Limited

Issue of [*Aggregate Face Amount of Series*] [*Title of Certificates*]
under the
U.S.$2,500,000,000
Trust Certificate Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 21 May 2012 [and the Supplement to the Base Prospectus dated ●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Certificates described herein [for the purposes of Article 5.4 of the Prospectus Directive] and must be read in conjunction with the Base Prospectus[as so supplemented]. Full information on the Trustee and Dubai Islamic Bank PJSC and the offer of the Certificates is only available on the basis of a combination of these Final Terms and the Base Prospectus[as so supplemented]. The Base Prospectus is available for viewing during normal business hours at the registered office of the Trustee at P.O. Box 1093, Queensgate House, George Town, Grand Cayman, KY1-1102, Cayman Islands and copies may be obtained from the registered office of the Principal Paying Agent at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.*]

[*When completing or adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*]

[*If the Certificates have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

1.	Issuer and Trustee:	DIB Sukuk Limited
2.	Service Agent:	Dubai Islamic Bank PJSC (**DIB**)
3.	Series Number:	[ ]
4.	Specified Currency:	[ ]
5.	Aggregate Face Amount of Series:	[ ]
6.	Issue Price:	[ ] per cent. of the Aggregate Face Amount
7.	(a) Specified Denominations: (*this means the minimum integral face amount in which transfers can be made*)	[ ] (*N.B. If an issue of Certificates is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €100,000 minimum denomination is not required.*)

	(b)	Calculation Amount:	[ ] (*If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations*.)
8.	(a)	Issue Date:	[ ]
	(b)	Return Accrual Commencement Date:	[Issue Date][*specify other*]
9.	Scheduled Dissolution Date:		[*Specify date or (for Floating Periodic Distribution Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year.*]
10.	Periodic Distribution Amount Basis:		[[ ] per cent. Fixed Periodic Distribution Amount] [[*specify reference rate*] +/– [ ] per cent. Floating Periodic Distribution Amount] *(further particulars specified below)*
11.	Dissolution Basis:		Dissolution at par
12.	Change of Periodic Distribution Basis:		[*Specify details of any provision for convertibility of Certificates into the other Periodic Distribution basis.*] [Not Applicable]
13.	Put/Call Options:		[Not Applicable] [Certificateholder Put Option] [Optional Dissolution (Call)] [(*further particulars specified below*)]
14.	Status:		Unsubordinated
15.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO PERIODIC DISTRIBUTIONS PAYABLE

16.	Fixed Periodic Distribution Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a)	Rate[s]:	[ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/*specify other*] in arrear]
	(b)	Periodic Distribution Date(s):	[[ ] in each year up to and including the Scheduled Dissolution Date] [*specify other*] (*NB: This will need to be amended in the case of long or short return accumulation periods*)
	(c)	Fixed Amount(s):	[ ] per Calculation Amount
	(d)	Broken Amount(s):	[ ] per Calculation Amount (*Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount(s) specified under paragraph 16(c)*)
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]

(f)	Determination Date(s):	[ ] in each year (*Insert regular periodic distribution dates, ignoring issue date or scheduled dissolution date in the case of a long or short first or last return accumulation period* *N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)*)
(g)	Other terms relating to the method of calculating Fixed Periodic Distributions:	[Not Applicable/*give details*]

17. Floating Periodic Distribution Provisions: [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(a)	Specified Periodic Distribution Dates:	[ ] [Not Applicable] (*Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business Day Convention is the Floating Rate Convention, insert "Not Applicable"*)
(b)	Specified Period:	[ ] [Not Applicable] (*Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert "Not Applicable"*)
(c)	Business Day Convention:	[Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / [*specify other*]]
(d)	Additional Business Centre(s):	[Not Applicable/*give details*]
(e)	Manner in which the Rate(s) is/are to be determined:	[Screen Rate Determination (Condition 7.3) applies/*specify other*]
(f)	Screen Rate Determination:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub paragraphs of this paragraph)*

(i)	Reference Rate:	[*For example, LIBOR or EURIBOR*]
(ii)	Periodic Distribution Determination Date:	[ ] (*Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR*)
(iii)	Relevant Screen Page:	[*For example, Reuters [LIBOR01/EURIBOR01]*] (*In the case of EURIBOR, if not Reuters EURIBOR01, ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)

	(iv) Relevant Time:	[*For example, 11.00 a.m. London time*]
(g)	Margin:	[+/-][ ] per cent. per annum
(h)	Day Count Fraction:	[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 30/360 30E/360 30E/360 (ISDA) *Other*] (*See Condition 7 for alternatives*)
(i)	Calculation Agent:	[Principal Paying Agent] [*specify other*]
(j)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating, if different from those set out in the Conditions, Floating Periodic Distributions:	[Not Applicable] [*give details*]

PROVISIONS RELATING TO DISSOLUTION

18.	Optional Dissolution (Call):	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub paragraphs of this paragraph. N.B. For Sharia reasons, Optional Dissolution (Call) and Certificateholder Put Option cannot both be specified as applicable for a particular Series*)
(a)	Optional Dissolution Amount (Call):	[[ ] per Calculation Amount]
(b)	Optional Dissolution Amount (Call) Percentage:	[ ] per cent.
(c)	Optional Dissolution Date:	[Any Periodic Distribution Date] [*specify other*] (*N.B. If the Floating Periodic Distribution Provisions are applicable, the Optional Dissolution Date must be a Periodic Distribution Date*)
(d)	Notice period (*if other than as set out in the Conditions*):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Trustee and the Principal Paying Agent or Delegate*)
19.	Certificateholder Put Option:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph. N.B. For Sharia reasons, Certificateholder Put Option and Optional Dissolution (Call) cannot both be specified as applicable for a particular Series*)

	(a)	Optional Dissolution Amount (Certificateholder Put):	[[ ] per Calculation Amount]
	(b)	Optional Dissolution Amount (Certificateholder Put) Percentage:	[ ] per cent.
	(c)	Certificateholder Put Option Date(s):	[ ]
	(d)	Notice Period (*if other than as set out in the Conditions*):	[ ] (*N.B. If setting notice periods which are different to those provided in the Conditions, the Trustee is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Trustee and the Principal Paying Agent or Delegate*)
20.	Final Dissolution Amount:		[[ ] per Calculation Amount] [*Note: this must be par*]
21.	Early Dissolution Amount (Tax):		[[ ] per Calculation Amount] [*Note: this must be par*]
22.	Dissolution Amount pursuant to Condition 14:		[ ] per Calculation Amount [*Note: this must be par*]

GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES

23.	Form of Certificates:	Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate
24.	Additional Financial Centres:	[ ] (*Note that this paragraph relates to the place of payment and not Return Accumulation Period end dates, to which sub-paragraph 17(d) relates*)

PROVISIONS IN RESPECT OF THE TRUST ASSETS

25.	Assets on the Issue Date:		The Initial Portfolio as scheduled to the Supplemental Purchase Contract specified below, a copy of which is set out in Annex 1 hereto
26.	Trust Assets:		[Condition 4.1 applies] [*specify other*]
27.	Details of Transaction Account:		DIB Sukuk Limited Transaction Account No: [ ] with [ ] for Series No.: [1/2/3 etc]
28.	Other Transaction Document Information:		
	(a)	Supplemental Trust Deed:	Supplemental Trust Deed dated [ ] between DIB Sukuk Limited, DIB and the Delegate
	(b)	Supplemental Purchase Contract:	Supplemental Purchase Contract dated [ ] between DIB Sukuk Limited (as Purchaser) and DIB (as Seller)

OTHER FINAL TERMS

29.	Other final terms:	[Not Applicable/*give details*] (*When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive*)

DISTRIBUTION

30.	(a)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b)	Date of Subscription Agreement:	[ ]
31.	If non-syndicated, name of relevant Dealer:		[ ]
32.	Additional selling restrictions:		[Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for the issue and admission to trading on [*specify relevant regulated market (for example, the Irish Stock Exchange's Regulated Market) and, if relevant, admission to an official list (for example, the Official List of the Irish Stock Exchange)*] of the Certificates described herein pursuant to the U.S.$2,500,000,000 Trust Certificate Issuance Programme of DIB Sukuk Limited.

RESPONSIBILITY

Each of the Trustee and DIB accepts responsibility for the information contained in these Final Terms. To the best of the knowledge and belief of each of the Trustee and DIB (each having taken all reasonable care to ensure that such is the case) the information contained in these Final Terms is in accordance with the facts and does not omit anything likely to affect the import of such information. [[ ] has been extracted from [ ]. 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 [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]]

Signed on behalf of

DIB SUKUK LIMITED

By: ....

Duly authorised

Signed on behalf of

DUBAI ISLAMIC BANK PJSC

By: ....

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i) Listing and admission to trading:	[Application has been made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on [*specify relevant regulated market (for example, the Irish Stock Exchange's regulated market) and, if relevant, admission to an official list (for example, the Official List of the Irish Stock Exchange)*] with effect from [ ].] [Application is expected to be made by the Trustee (or on its behalf) for the Certificates to be admitted to trading on [*specify relevant regulated market (for example, the Irish Stock Exchange's regulated market) and, if relevant, listing on an official list (for example, the Official List of the Irish Stock Exchange)*] with effect from [ ].] [Not Applicable.]
(ii) Estimate of total expenses related to admission to trading:	[ ]

2. RATINGS

Ratings:

Fitch Ratings Limited is established in the European Union and is registered under Regulation (EC) No. 1060/2009.

Moody's Investors Services Limited is established in the European Union and is registered under Regulation (EC) No. 1060/2009.

(*The following language should be used where the Certificates are to be rated by a credit rating agency other than the Moody's and Fitch legal entities set out above.*)

[The Certificates to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*].]

[*Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.*]

(The above disclosure should reflect the rating allocated to Certificates of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[[*Insert the legal name of the relevant credit rating agency entity*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended).]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No.

1060/2009 (as amended) (the **CRA Regulation**). The ratings [[have been]/[are expected to be]] endorsed by [*insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**), but it [is]/[has applied to be] certified in accordance with the CRA Regulation.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*], which is established in the European Union, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*.]]

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and DIB is aware, no person involved in the issue of the Certificates has an interest material to the offer – *Amend as appropriate if there are other interests*.]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

4. [PROFIT OR RETURN (*Fixed Periodic Distribution Certificates only*)

Indication of profit or return:	[ ] The profit or return is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future profit or return.]

5. OPERATIONAL INFORMATION

(i)	ISIN Code:	[ ]
(ii)	Common Code:	[ ]
(iii)	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(iv)	Delivery:	Delivery [against/free of] payment
(v)	Names and addresses of additional Paying Agent(s) (if any):	[ ]

ANNEX 1
INITIAL PORTFOLIO

[*To be inserted from the relevant Supplemental Purchase Contract*]

TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form issued under the Programme and will apply to each Global Certificate.

The applicable Final Terms in relation to any Series may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Series.

DIB Sukuk Limited (in its capacities as issuer and trustee, the **Trustee**) has established a programme (the **Programme**) for the issuance of up to U.S.$2,500,000,000 in aggregate face amount of trust certificates. In these Terms and Conditions (the **Conditions**), references to **Certificates** shall be references to the trust certificates which are the subject of the applicable Final Terms and references to the **applicable Final Terms** are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Certificate.

Certificates issued under the Programme are issued in series (each a **Series**). The applicable Final Terms supplement these Conditions and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purposes of this Certificate.

Each of the Certificates will represent an undivided ownership interest in the Trust Assets (as defined in Condition 4.1) which are held by the Trustee on trust (the **Trust**) for, *inter alia*, the benefit of the registered holders of the Certificates pursuant to (i) a Master Trust Deed (the **Master Trust Deed**) dated 21 May 2012 and made between the Trustee, Dubai Islamic Bank PJSC (**DIB**) and Deutsche Trustee Company Limited (the **Delegate** which expression shall include any co-Delegate or any successor) and (ii) a supplemental trust deed (the **Supplemental Trust Deed** and, together with the Master Trust Deed, the **Trust Deed**) having the details set out in the applicable Final Terms.

Payments relating to the Certificates will be made pursuant to an agency agreement dated 21 May 2012 (the **Agency Agreement**) made between the Trustee, the Delegate, DIB, Deutsche Bank AG, London Branch in its capacities as principal paying agent (in such capacity, the **Principal Paying Agent**, which expression shall include any successor and, together with any further or other paying agents appointed from time to time in accordance with the Agency Agreement, the **Paying Agents**, which expression shall include any successors) and calculation agent (in such capacity, the **Calculation Agent**, which expression shall include any successor) and Deutsche Bank Luxembourg S.A. in its capacities as a registrar (in such capacity, the **Registrar**, which expression shall include any successor) and as transfer agent (in such capacity and together with the Registrar, the **Transfer Agents**, which expression shall include any successors). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these Conditions as the **Agents**.

Words and expressions defined in the Trust Deed and the Agency Agreement or used in the applicable Final Terms 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 inconsistency between any such document and the applicable Final Terms, the applicable Final Terms will prevail. In addition, in these Conditions:

(a) any reference to face amount shall be deemed to include the relevant Dissolution Amount (as defined in Condition 8.1), any additional amounts (other than relating to Periodic Distribution Amounts (as defined in Condition 6.2)) which may be payable under Condition 11, and any other amount in the nature of face amounts payable pursuant to these Conditions;

(b) any reference to Periodic Distribution Amounts shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 11 and any other amount in the nature of a profit distribution payable pursuant to these Conditions;

(c) references to Certificates being "outstanding" shall be construed in accordance with the Master Trust Deed; and

(d) any reference to a Transaction Document (as defined below) shall be construed as a reference to that Transaction Document as amended and/or supplemented from time to time.

Subject as set out below, copies of the documents set out below are available for inspection and obtainable free of charge by the Certificateholders during normal business hours at the specified office for the time being of the Principal Paying Agent. The holders of the Certificates (the **Certificateholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the documents set out below:

(a) a master purchase agreement between DIB Sukuk Limited (in its capacity as Trustee and in its capacity as purchaser, the **Purchaser**) and DIB (in its capacity as seller, the **Seller**) dated 21 May 2012 (the **Master Purchase Agreement**);

(b) the supplemental purchase contract (the **Supplemental Purchase Contract** and, together with the Master Purchase Agreement, the **Purchase Agreement**) having the details set out in the applicable Final Terms;

(c) the service agency agreement between the Trustee and DIB (in its capacity as service agent, the **Service Agent**) dated 21 May 2012 (the **Service Agency Agreement**);

(d) the purchase undertaking made by DIB for the benefit of the Trustee and the Delegate dated 21 May 2012 (the **Purchase Undertaking**);

(e) the sale undertaking made by the Trustee for the benefit of DIB dated 21 May 2012 (the **Sale Undertaking**);

(f) the Trust Deed;

(g) the Agency Agreement; and

(h) the applicable Final Terms.

The documents listed above are referred to in these Conditions as the **Transaction Documents**. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct DIB Sukuk Limited, on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates to the Purchaser in accordance with the Purchase Agreement and (ii) to enter into each Transaction Document to which it is a party, subject to the provisions of the Trust Deed and these Conditions.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Certificates are issued in registered form in the Specified Denominations and, in the case of Certificates in definitive form, are serially numbered.

For so long as any of the Certificates is represented by a Global Certificate held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (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 face amount of such Certificates (in which regard any certificate or other document issued by a clearing system as to the 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 treated by the Trustee, the Delegate, DIB and the Agents as the holder of such face amount of such Certificates for all purposes other than with respect to payment in respect of such Certificates, for which purpose the registered holder of the Global Certificate shall be treated by the Trustee, the Delegate, DIB and any Agent as the holder of such face amount of such Certificates in accordance with and subject to the terms of the relevant Global Certificate and the expressions **Certificateholder** and **holder** in relation to any Certificates and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular face amount of Certificates as aforesaid, the Delegate may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Each holder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

1.2 Register

The Registrar will maintain a register (the **Register**) of Certificateholders in respect of the Certificates in accordance with the provisions of the Agency Agreement. In the case of Certificates in definitive form, a definitive Certificate will be issued to each Certificateholder in respect of its registered holding of Certificates.

1.3 Title

The Trustee, the Delegate, DIB and the Agents may (to the fullest extent permitted by applicable laws) deem and treat the person in whose name any outstanding Certificate is for the time being registered (as set out in the Register) as the holder of such Certificate or of a particular face amount of the Certificates for all purposes (whether or not such Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Trustee, the Delegate, DIB and the Agents shall not be affected by any notice to the contrary.

All payments made to such registered holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Certificate or face amount.

2. TRANSFERS OF CERTIFICATES

2.1 Transfers of interests in the Global Certificate

Transfers of interests in the Global Certificate will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. An interest in the Global Certificate will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Certificates in definitive form only in the Specified Denomination or integral multiples thereof and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

2.2 Transfers of Certificates in definitive form

Upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Certificate in definitive form may be transferred in whole or in part (in the Specified Denomination or an integral multiple thereof). In order to effect any such transfer (a) the holder or holders must (i) surrender the definitive Certificate for registration of the transfer thereof (or the relevant part thereof) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such regulations as DIB Sukuk Limited, DIB, the Delegate and the Registrar may from time to time prescribe (the initial such regulations being scheduled to the Master Trust Deed).

Subject as provided above, the relevant Transfer Agent will, within five business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail to such address as the transferee may request a new Certificate in definitive form of a like aggregate face amount to the Certificate (or the relevant part of the Certificate) transferred. In the case of the transfer of part only of a Certificate in definitive form, a new Certificate in definitive form in respect of the balance of the Certificate not transferred will be so delivered or (at the risk of the transferor) sent to the transferor.

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

2.3 Costs of registration

Certificateholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Trustee may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3. STATUS AND LIMITED RECOURSE

3.1 Status

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Trust Deed and these Conditions, and is a direct, unsubordinated, unsecured and limited recourse obligation of the Trustee. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

3.2 Limited Recourse

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

DIB is obliged to make certain payments under the Transaction Documents directly to the Trustee (for and on behalf of the Certificateholders), and the Delegate will have direct recourse against DIB to recover such payments.

The net proceeds of realisation of, or enforcement with respect to, the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following the distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 14, no holder of Certificates will have any claim against DIB Sukuk Limited, DIB (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), or the Delegate, or the Agents, or any of their respective affiliates or against any assets (other than the Trust Assets to the extent not exhausted) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. In particular, no holder of Certificates will be able to petition for, or join any other person in instituting proceedings for, the reorganisation, liquidation, winding up or receivership of DIB Sukuk Limited, DIB (to the extent that it fulfils all of its obligations under the Transaction

Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

3.3 **Agreement of Certificateholders**

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

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

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

(c) 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 DIB Sukuk Limited arising under or in connection with these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer or director of DIB Sukuk Limited in their capacity as such and any and all personal liability of every such shareholder, officer or director in their capacity as such for any breaches by DIB Sukuk Limited of any such duty, obligation or undertaking is hereby expressly waived and excluded to the extent permitted by law.

4. THE TRUST

4.1 **The Trust Assets**

Pursuant to the Purchase Agreement, the Seller will sell a portfolio (the **Initial Portfolio** and, as constituted from time to time, the **Portfolio**) of certain assets (the **Assets**) specified in the Supplemental Purchase Contract to the Trustee and the Trustee will purchase the Initial Portfolio using the proceeds of the issue of the Certificates. The Trustee has entered into the Service Agency Agreement with the Service Agent as service agent of the Portfolio.

DIB has entered into the Purchase Undertaking in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Scheduled Dissolution Date at the Final Dissolution Amount (each as defined in Condition 10.1) or, if earlier, on the due date for dissolution determined in accordance with Condition 14 at the Dissolution Amount specified in the applicable Final Terms. If Certificateholder Put Option is specified in the applicable Final Terms as being applicable, the Purchase Undertaking may also be exercised ahead of a Certificateholder Put Option Date (as specified in the applicable Final Terms) to fund the relevant Certificates being redeemed under Condition 10.4 through the purchase by DIB of the Trustee's rights, title, interests, benefits and entitlements in, to and under a portion of the Portfolio with an aggregate Value (as defined in the Service Agency Agreement) no greater than the aggregate face amount of such Certificates being redeemed.

Pursuant to the Sale Undertaking, subject to the Trustee being entitled to redeem the Certificates early pursuant to Condition 10.2, DIB may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 60 days prior to the Tax Dissolution Date (as defined in Condition 10.2), oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Tax Dissolution Date at the Early Dissolution Amount (Tax). If Optional Dissolution (Call) is specified in the applicable Final Terms as being applicable, DIB may, by exercising its option under the Sale Undertaking and serving notice on the Trustee no later than 60 days prior to the Optional Dissolution Date, oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the Portfolio on the Optional Dissolution Date.

Following any purchase of Certificates by or on behalf of DIB or any of its Subsidiaries (as defined in Condition 13) pursuant to Condition 13, the Sale Undertaking may also be exercised in respect of the transfer to DIB of an ownership interest (a **Cancellation Interest**) in the Portfolio with an aggregate Value no greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates by the Principal Paying Agent. The Cancellation Interest will be calculated as the ratio, expressed as a percentage, of the aggregate outstanding face amount of the relevant Certificates to be cancelled to the aggregate face amount of the Certificates outstanding immediately prior to the cancellation of such Certificates.

Pursuant to the Trust Deed, the Trustee holds the Trust Assets upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder. Unless otherwise specified in the applicable Final Terms, the term **Trust Assets** means:

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

(b) all of the Trustee's rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by DIB pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (ii) the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed); and

(c) all monies standing to the credit of the Transaction Account specified in the applicable Final Terms (the **Transaction Account**) from time to time,

and all proceeds of the foregoing.

4.2 **Application of Proceeds from the Trust Assets**

On each Periodic Distribution Date and on the Scheduled Dissolution Date or any earlier Dissolution Date, the monies standing to the credit of the Transaction Account shall be applied in the following order of priority:

(a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;

(b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due and unpaid;

(c) *third,* only if such payment is made on the Scheduled Dissolution Date or a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and rateably of the relevant Dissolution Amount;

(d) *fourth*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Service Agent to repay any amounts advanced by way of a Liquidity Facility (as defined in the Service Agency Agreement);

(e) *fifth*, only if such payment is made on the Scheduled Dissolution Date or the final Dissolution Date, to the Service Agent in or towards payment of any outstanding Service Agency Liability Amounts (as defined in the Service Agency Agreement); and

(f) *sixth*, only after all necessary payments above have been made in full, to DIB.

5. COVENANTS

The Trustee covenants that, for so long as any Certificate is outstanding, it will not (without the prior written consent of the Delegate):

(a) incur any indebtedness in respect of borrowed money whatsoever (whether structured in accordance with the principles of the Sharia 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) or any other certificates except, in all cases, as contemplated in the Transaction Documents;

(b) grant or permit to be outstanding any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law);

(c) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, 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 ownership interest in any of the Trust Assets except pursuant to the Transaction Documents;

(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 of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its memorandum and articles of association;

(f) act as trustee in respect of any trust other than a trust corresponding to any other Series issued under the Programme;

(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 to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; and

(j) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party 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 Trust Assets as provided in the Transaction Documents; and

    (iii) such other matters which are incidental thereto.

6. FIXED PERIODIC DISTRIBUTION PROVISIONS

6.1 Application

This Condition is applicable to the Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

6.2 **Periodic Distribution Amount**

Subject to Condition 4.2 and Condition 8 and unless otherwise specified in the applicable Final Terms, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on each Periodic Distribution Date equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

In these Conditions:

Periodic Distribution Amount means, in relation to a Certificate and a Return Accumulation Period, the amount of profit distribution payable in respect of that Certificate for that Return Accumulation Period which amount may be a Fixed Amount, a Broken Amount or an amount otherwise calculated in accordance with this Condition 6 or Condition 7; and

Return Accumulation Period means the period from (and including) a Periodic Distribution Date (or the Return Accrual Commencement Date) to (but excluding) the next (or first) Periodic Distribution Date.

6.3 **Determination of Periodic Distribution Amount**

Except as provided in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Certificate in definitive form for any Return Accumulation Period shall be the Fixed Amount or, if so specified in the applicable Final Terms, the Broken Amount so specified.

Except in the case of Certificates in definitive form where a Fixed Amount or Broken Amount is specified in the applicable Final Terms, the Periodic Distribution Amount payable in respect of each Certificate shall be calculated by applying the rate or rates (expressed as a percentage per annum) specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms (the **Rate**) applicable to the relevant Return Accumulation Period to:

(a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or

(b) in the case of Certificates in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the amount of profit distribution payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(i) in the case of Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accrual Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accrual Commencement Date or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of DIB to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

7. FLOATING PERIODIC DISTRIBUTION PROVISIONS

7.1 Application

This Condition is applicable to the Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable.

7.2 Periodic Distribution Amount

Subject to Condition 4.2 and 8 and unless otherwise specified in the applicable Final Terms, the Principal Paying Agent shall distribute to holders *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account, a distribution in relation to the Certificates on either:

(a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Final Terms; or

(b) if no Specified Periodic Distribution Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Periodic Distribution Date, a **Periodic Distribution Date**) which falls the number of months or other period specified as the Specified

Period in the applicable Final Terms after the preceding Periodic Distribution Date or, in the case of the first Periodic Distribution Date, after the Return Accrual Commencement Date.

In relation to each Periodic Distribution Date, the distribution payable will be equal to the Periodic Distribution Amount payable in respect of the Return Accumulation Period ending immediately before that Periodic Distribution Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (y) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 7.2(b) above, the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or

(B) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In these Conditions:

Business Day means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (ii) in relation to any sum payable in euro, a TARGET Settlement Day; and

TARGET Settlement Day means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

7.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Final Terms as the manner in which the rate or rates (expressed as a percentage per annum) specified in the applicable Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the applicable Final Terms (the **Rate**) is to be determined, the Rate applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

(a) if the Reference Rate specified in the applicable Final Terms is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;

(c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

    (i) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and

    (ii) determine the arithmetic mean of such quotations; and

(d) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Certificates during such Return Accumulation Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Certificates in respect of a preceding Return Accumulation Period.

In this Condition the following expressions have the following meanings:

Reference Banks means the principal London office of each of four major banks engaged in the London or Eurozone inter-bank market selected by or on behalf of the Trustee, provided that once a Reference Bank has first been selected by or on behalf of the Trustee, such Reference Bank shall not be changed unless it ceases to be capable of acting as such;

Relevant Screen Page means the page, section or other part of a particular information service specified as the Relevant Screen Page in the applicable Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate.

7.4 **Cessation of Profit Entitlement**

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the relevant Dissolution Date, as a result of the failure of DIB to pay the relevant Exercise Price and enter into a sale agreement in accordance with the terms of the Purchase Undertaking or the Sale Undertaking, as the case may be, unless default is made in the payment of the relevant Dissolution Amount in which case Periodic Distribution Amounts will continue to accrue in respect of the Certificates in the manner provided in this Condition.

7.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to:

(a) in the case of Certificates which are represented by a Global Certificate, the aggregate outstanding face amount of the Certificates represented by such Global Certificate; or

(b) in the case of Certificates in definitive form, the Calculation Amount;

and, in each case, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). Where the Specified Denomination of a Certificate in definitive form is a multiple of the Calculation Amount, the Periodic Distribution Amount payable in respect of such Certificate shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition:

(a) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);

(b) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365;

(c) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;

(d) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Return Accumulation Period divided by 360;

(e) if "30/360" "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless such number would be 31, in which case D_2 will be 30;

(g) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Return Accumulation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Return Accumulation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Return Accumulation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Return Accumulation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Return Accumulation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Return Accumulation Period, unless (i) that day is the last day of February but not the Scheduled Dissolution Date or (ii) such number would be 31, in which case D_2 will be 30.

7.6 **Calculation of Other Amounts**

If the applicable Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Final Terms.

7.7 **Publication**

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Trustee, DIB, the Delegate, the Paying Agents as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the fourth day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders. The Calculation Agent will be required to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period and any such recalculation will be notified to the Trustee, DIB, the Delegate, the Paying Agents and the Certificateholders as soon as practicable after such determination.

7.8 **Notifications, etc. to be final**

All communications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition by the Calculation Agent will (in the absence of wilful default, bad faith or manifest or proven error) be binding on the Trustee, the Delegate, DIB, the Agents and all Certificateholders and (in the absence of wilful default or bad faith) no liability shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

7.9 **Determination by the Delegate**

The Delegate shall, if the Calculation Agent defaults at any time in its obligation to determine any Rate, Periodic Distribution Amount and/or Periodic Distribution Date in accordance with the above provisions, determine the relevant Rate, Periodic Distribution Amount and/or Periodic Distribution Date, the former at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and the Periodic Distribution Amount and the Periodic Distribution Date in the manner provided in this Condition and the determinations shall be deemed to be determinations by the Calculation Agent.

8. PAYMENT

8.1 **Payments in respect of the Certificates**

Subject to Condition 8.2, payment of any Dissolution Amount and any Periodic Distribution Amount will be made by transfer to the registered account of each Certificateholder. Payments of any Dissolution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. Each Dissolution 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:

(a) **Dissolution Amount** means, as appropriate, the Final Dissolution Amount, the Early Dissolution Amount (Tax), the Optional Dissolution Amount (Call), the Optional Dissolution Amount (Certificateholder Put), the Dissolution Amount for the purposes of Condition 14 or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the applicable Final Terms;

(b) **Payment Business Day** means:

(i) in the case where presentation and surrender of a definitive Certificate is required before payment can be made, a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account:

(A) if the currency of payment is euro, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(B) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre;

(b) a Certificateholder's **registered account** means the account maintained by or on behalf of such Certificateholder with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date;

(c) a Certificateholder's **registered address** means its address appearing on the Register at that time; and

(d) **Record Date** means (i) (where the Certificate is represented by a Global Certificate), at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the Periodic Distribution Date, Scheduled Dissolution Date or Dissolution Date, as the case may be; or (ii) (where the Certificate is in definitive form), 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 Amount, the date falling two Payment Business Days before the Scheduled Dissolution Date or Dissolution Date, as the case may be.

8.2 **Payments subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in any jurisdiction, but without prejudice to the provisions of Condition 11, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

8.3 **Payment only on a Payment Business Day**

Payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of a payment of any Dissolution Amount, if later, on the Payment Business Day on which the relevant definitive 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 definitive Certificate (if required to do so).

If the amount of any Dissolution Amount or 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.

9. AGENTS

9.1 Agents of Trustee

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided therein) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

9.2 Specified Offices

The names of the initial Agents and their initial specified offices are set out in the Agency Agreement. 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, however, that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be a Registrar;

(c) if a Calculation Agent (other than the Principal Paying Agent) has been appointed in the applicable Final Terms, there will at all times be a Calculation Agent;

(d) so long as any Certificates are admitted to listing, trading and/or quotation on any listing authority, stock exchange and/or quotation system, there will at all times be 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

(e) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Certificateholders promptly by the Trustee in accordance with Condition 17.

10. CAPITAL DISTRIBUTIONS OF THE TRUST

10.1 Scheduled Dissolution

Unless the Certificates are previously redeemed, or purchased and cancelled, in full, the Trustee will redeem each Certificate on the Scheduled Dissolution Date at the Final Dissolution Amount together with any Periodic Distribution Amounts payable. Upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10.2 Early Dissolution for Tax Reasons

The Certificates may be redeemed by the Trustee in whole, but not in part:

(a) at any time (if the Fixed Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable); or

(b) on any Periodic Distribution Date (if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms as being applicable),

(such date, the **Tax Dissolution Date**) on giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable), at the Early

Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount, if a Tax Event occurs where **Tax Event** means:

(a) the determination by DIB that (1) the Trustee has or will become obliged to pay additional amounts as provided or referred to in Condition 11 as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 11) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (2) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or

(b) the receipt by the Trustee of notice from DIB that (1) DIB has or will become obliged to pay additional amounts pursuant to the terms of the Service Agency Agreement, the Purchase Undertaking and/or the Sale Undertaking as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and (2) such obligation cannot be avoided by DIB taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given unless an exercise notice has been received by the Trustee from DIB under the Sale Undertaking and no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which (in the case of (a) above) the Trustee would be obliged to pay such additional amounts if a payment in respect of the Certificates were then due or (in the case of (b) above) DIB would be obliged to pay such additional amounts if a payment to the Trustee under the Service Agency Agreement was then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Trustee shall deliver to the Delegate (i) a certificate signed by one director of the Trustee (in the case of (a) above) or two Authorised Signatories of DIB (in the case of (b) above) stating that the Trustee is entitled to effect such dissolution and redemption and setting forth a statement of facts showing that the conditions precedent in (a) or (b) above to the right of the Trustee so to dissolve have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Trustee or DIB, as the case may be, has or will become obliged to pay such additional amounts as a result of such change or amendment. The Delegate shall be entitled to accept (without further investigation) any such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Certificateholders. Upon the expiry of any such notice as is referred to in this Condition 10.2, the Trustee shall be bound to redeem the Certificates at the Early Dissolution Amount (Tax) together with any accrued but unpaid Periodic Distribution Amount and, upon payment in full of such amounts to the Certificateholders, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

10.3 **Dissolution at the Option of the Trustee**

If Optional Dissolution (Call) is specified in the applicable Final Terms as being applicable, the Certificates may be redeemed in whole but not in part on any Optional Dissolution Date, which must be a Periodic Distribution Date if the Floating Periodic Distribution Provisions are specified in the applicable Final Terms, at the relevant Optional Dissolution Amount (Call) together with any accrued but unpaid Periodic Distribution Amounts on the Trustee giving not less than 30 nor more than 60 days' notice to the Certificateholders in accordance with Condition 17 (which notice shall be irrevocable and shall oblige the Trustee to redeem the Certificates on the relevant Optional Dissolution Date). Upon such redemption, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof; provided, however, that no such notice of redemption shall be given unless the Trustee has received an exercise notice from DIB under the Sale Undertaking.

Optional Dissolution (Call) and Certificateholder Put Option may not both be specified as applicable in the applicable Final Terms.

10.4 Dissolution at the option of the Certificateholders

If Certificateholder Put Option is specified in the applicable Final Terms as being applicable, upon the holder of any Certificate giving to the Trustee in accordance with Condition 17 not less than 15 nor more than 30 days' notice the Trustee will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Certificate on the Certificateholder Put Option Date and at the Optional Dissolution Amount (Certificateholder Put) together with any accrued but unpaid Periodic Distribution Amounts. Certificates may be redeemed under this Condition 10.4 in any multiple of their lowest Specified Denomination. It may be that before a Certificateholder Put Option can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Certificate the holder of this Certificate must, if this Certificate is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of the Registrar at any time during normal business hours of the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of the Registrar (a **Put Notice**) and in which the holder must specify a bank account to which payment is to be made under this Condition 10.4 and the face amount thereof to be redeemed and, if less than the full amount of the Certificates so surrendered is to be redeemed, an address to which a new Certificate in respect of the balance of such Certificate is to be sent subject to and in accordance with the provisions of Condition 2.2.

If this Certificate is represented by a Global Certificate or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of this Certificate the holder of this Certificate must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on such Certificateholder's instruction by Euroclear, Clearstream, Luxembourg or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time and if this Certificate is represented by a Global Certificate, at the same time present or procure the presentation of the relevant Global Certificate to the Principal Paying Agent for notation accordingly.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg by a holder of any Certificate pursuant to this Condition 10.4 shall be irrevocable except where, prior to the due date of redemption, a Dissolution Event has occurred and the Delegate has declared the Certificates to be redeemed pursuant to Condition 14, in which event such holder, at its option, may elect by notice to the Trustee to withdraw the notice given pursuant to this Condition 10.4.

Certificateholder Put Option and Optional Dissolution (Call) may not both be specified as applicable in the applicable Final Terms.

10.5 No other Dissolution

The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust, otherwise than as provided in this Condition, Condition 13 and Condition 14.

10.6 Cancellations

All Certificates which are redeemed, and all Certificates purchased by or on behalf of DIB or any of its Subsidiaries and delivered by DIB to the Principal Paying Agent for cancellation, will forthwith be cancelled and accordingly such Certificates may not be held, reissued or resold.

10.7 **Dissolution Date**

In these Conditions, the expression **Dissolution Date** means, as the case may be, (a) following the occurrence of a Dissolution Event (as defined in Condition 14), the date on which the Certificates are redeemed in accordance with the provisions of Condition 14, (b) the date on which the Certificates are redeemed in accordance with the provisions of Condition 10.2, (c) any Optional Dissolution Date or (d) any Certificateholder Put Option Date.

11. 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, unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

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

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

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

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

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

As used in these Conditions:

Relevant Date means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the principal financial centre of the currency of payment by the Principal Paying Agent on or prior to such due date, the date on which the full amount has been so received and notice to that effect has duly been given to the Certificate holders in accordance with Condition 17;

Relevant Jurisdiction means: (i) in the case of payments to be made by the Trustee, the Cayman Islands; or (ii) in the case of payments to be made by DIB (acting in any capacity), the United Arab Emirates or any Emirate therein or, in each case, any political subdivision or authority thereof or therein having the power to tax; and

Taxes means any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature imposed or levied by or on behalf of any Relevant Jurisdiction.

The Purchase Undertaking, the Sale Undertaking and the Service Agency Agreement provide that payments and transfers thereunder by DIB, shall be made free and clear of and without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment or transfer, as the case may be, by DIB of additional amounts so that the full amount which would otherwise have been due and payable or transferable, as the case may be, is received by the Trustee.

12. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of 10 years (in the case of Dissolution Amounts) and a period of five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8.

13. PURCHASE AND CANCELLATION OF CERTIFICATES

13.1 Purchases

DIB or any of its Subsidiaries may at any time purchase Certificates at any price in the open market or otherwise.

For the purposes of these Conditions, **Subsidiary** means, in relation to DIB, 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.

13.2 Cancellation of Certificates held by DIB and/or any of its Subsidiaries

Following any purchase of Certificates by or on behalf of DIB or any of its Subsidiaries pursuant to Condition 13.1, the Sale Undertaking may be exercised by DIB in respect of the transfer to DIB of a Cancellation Interest in the Portfolio with an aggregate Value not greater than the aggregate face amount of the Certificates so purchased against cancellation of such Certificates pursuant to Condition 10.6.

14. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events (**Dissolution Events**):

(a) default is made in the payment of any Dissolution Amount or any Periodic Distribution Amount on the due date for payment thereof and such default continues unremedied for a period of seven days; or

(b) the Trustee fails to perform or observe any of its other duties, obligations or undertakings under the Transaction Documents and (except in any case where, in the opinion of the Delegate, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days following the service by the Delegate of a notice on the Trustee requiring the same to be remedied; or

(c) a DIB Event (as defined in the Purchase Undertaking) occurs; or

(d) the Trustee repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or

(e) at any time it is or will become unlawful or impossible for the Trustee to perform or comply with any or all of its obligations under the Transaction Documents to which it is party or any of the obligations of the Trustee under the Transaction Documents to which it is a party are not or cease to be legal, valid, and binding; or

(f) either (i) the Trustee becomes insolvent or is unable to pay its debts as they fall due or (ii) an administrator or liquidator of the whole or substantially the whole of the undertaking, assets and revenues of the Trustee is appointed (or application for any such appointment is made) or (iii) the Trustee takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Trustee ceases or threatens to cease to carry on all or substantially the whole of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent); or

(g) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Trustee; or

(h) any event occurs which under the laws of the Cayman Islands has an analogous effect to any of the events referred to in paragraph (f) and (g) above,

the Delegate (subject to it being indemnified and/or secured and/or prefunded to its satisfaction), if notified in writing of the occurrence of such Dissolution Event, shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 17 with a request to such holders to indicate if they wish the Certificates to be redeemed and the Trust to be dissolved. If so requested in writing by the holders 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 holders of the Certificates (each a **Dissolution Request**), the Delegate shall (subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction) give notice of the Dissolution Request to the Trustee, DIB and all the holders of the Certificates in accordance with Condition 17 whereupon the Certificates shall be immediately redeemed at the Dissolution Amount specified in the applicable Final Terms, together with any accrued but unpaid Periodic Distribution Amounts on the date of such notice. Upon payment in full of such amounts, the Trust will terminate, the Certificates shall cease to represent undivided ownership interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

For the purpose of (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6, Condition 7 and Condition 10) notwithstanding that the Trustee has, at the relevant time, insufficient funds or Trust Assets to pay such amounts.

15. ENFORCEMENT AND EXERCISE OF RIGHTS

15.1 Enforcement

Upon the occurrence of a Dissolution Event and the giving of notice of a Dissolution Request to the Trustee by the Delegate, to the extent that the amounts payable in respect of the Certificates have not been paid in full pursuant to Condition 14, subject to Condition 15.2 the Delegate shall (subject to being indemnified and/or secured and/or prefunded to its satisfaction), take one or more of the following steps:

(a) enforce the provisions of the Purchase Undertaking and/or the Service Agency Agreement against DIB; and/or

(b) take such other steps as the Delegate may consider necessary in its absolute discretion to protect the interests of the Certificateholders.

Notwithstanding the foregoing but subject to Condition 15.2, the Delegate may at any time, at its discretion and without notice, take such proceedings and/or other steps as it may think fit against or in relation to each of the Trustee and/or DIB to enforce their respective obligations under the Transaction Documents, these Conditions and the Certificates.

15.2 Delegate not obliged to take Action

The Delegate shall not be bound in any circumstances to take any action to enforce or to realise the Trust Assets or take any action against the Trustee and/or DIB under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one-fifth of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing provided that the Delegate shall not be liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.

15.3 Direct Enforcement by Certificateholder

No Certificateholder shall be entitled to proceed directly against the Trustee and/or DIB or provide instructions (not otherwise permitted by the Trust Deed) to the Delegate to proceed against the Trustee and/or DIB under any Transaction Document unless (a) the Delegate, having become bound to proceed pursuant to Condition 15.2, fails to do so within a reasonable period of becoming so bound and such failure is continuing and (b) 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 aggregate face amount of the Certificates outstanding. 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 pursuant to 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.

15.4 Limited Recourse

The foregoing paragraphs in this Condition are subject to this paragraph. After enforcing or realising the Trust Assets and distributing the proceeds of the Trust Assets in accordance with Condition 4.2 and the Trust Deed, the obligations of the Trustee in respect of the Certificates shall be satisfied and no holder of the Certificates may take any further steps against the Trustee, the Delegate or any other person to recover any further sums in respect of the Certificates and the right to receive any sums unpaid shall be extinguished. In particular, no holder of the Certificates shall be entitled in respect thereof to petition or to take any other steps for the winding-up of DIB Sukuk Limited.

16. REPLACEMENT OF DEFINITIVE CERTIFICATES

Should any definitive Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar (and if the Certificates are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such 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

All notices to Certificateholders will be valid if:

(a) published in a daily newspaper having general circulation in the Republic of Ireland (which is expected to be the *Irish Times*) approved by the Delegate or published on the website of the Irish Stock Exchange (www.ise.ie) or, if in either case such publication is not practicable, in a leading English language newspaper having general circulation in Europe approved by the Delegate; or

(b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

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) by which the Certificates have then been admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

Until such time as any definitive Certificates are issued, there may, so long as any Global Certificate representing the Certificates is held on behalf of one or more clearing systems, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to the relevant clearing systems for communication by them to the Certificateholders and, in addition, for so long as any Certificates are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which the said notice was given to the relevant clearing systems.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same with the Principal Paying Agent. Whilst any of the Certificates are represented by a Global Certificate held on behalf of one or more clearing systems, such notice may be given by any holder of a Certificate to the Principal Paying Agent through the clearing system in which its interest in the Certificates is held in such manner as the Principal Paying Agent and the relevant clearing system may approve for this purpose.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

18.1 The Master Trust Deed contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Eligible Persons (as defined in the Master Trust Deed) present holding or representing in the aggregate more than 50 per cent. of the then outstanding aggregate face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes the modification of certain provisions of the Certificates (including modifying the Scheduled Dissolution Date, reducing or cancelling any amount payable in respect of the Certificates or altering the currency of payment of the Certificates or amending Condition 5 and certain covenants given by DIB in the Transaction Documents), the quorum shall be one or more Eligible Persons present holding or representing not less than two-thirds in the outstanding face amount of the Certificates, or at any adjourned such meeting one or more Eligible Persons present holding or representing not less than one-third in the outstanding face amount of the Certificates. The expression **Extraordinary Resolution** is defined in the Master Trust Deed to mean any of (i) a resolution passed at a meeting duly convened and held by a majority consisting of not less than 75 per cent. of the votes cast, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates for the time being outstanding.

18.2 The Delegate may agree, without the consent or sanction of the Certificateholders, to any modification (other than in respect of a Reserved Matter) of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or determine, without any such consent or sanction as aforesaid, that any Dissolution Event or an event which, with the giving of notice, lapse of time, determination of materiality or fulfilment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event shall not be treated as such if, in the opinion of the Delegate, (a) such modification is of a formal, minor or technical nature, (b) such modification is made to correct a manifest error or (c) such modification, waiver, authorisation or determination is not, in the opinion of the Delegate, materially prejudicial to the interests of the Certificateholders. No such direction or request will affect a previous consent, waiver, authorisation or determination.

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

18.4 Any modification, abrogation, waiver, authorisation or determination shall be binding on all the Certificateholders and shall be notified to the Certificateholders as soon as practicable thereafter in accordance with Condition 17.

19. INDEMNIFICATION AND LIABILITY OF THE DELEGATE AND THE TRUSTEE

19.1 The Trust Deed contains provisions for the indemnification of each of the Delegate and the Trustee in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or prefunded to its satisfaction as well as provisions entitling the Delegate to be paid its costs and expenses in priority to the claims of the Certificateholders.

19.2 Neither the Delegate nor the Trustee makes any representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of DIB 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 made by DIB but are not so made and shall not in any circumstances have any liability arising from or in relation to the Trust Assets other than as expressly provided in these Conditions or in the Trust Deed.

19.3 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 wilful default by the Trustee or the Delegate, as the case may be.

19.4 The Trust Deed also contains provisions pursuant to which the Delegate is entitled, *inter alia*, (a) to enter into business transactions with DIB and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to DIB and/or any of its Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Certificateholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

20. 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.

21. GOVERNING LAW AND DISPUTE RESOLUTION

21.1 The Trust Deed, the Certificates and these Conditions (including the remaining provisions of this Condition 21) and any non-contractual obligations arising out of or in connection with the Trust Deed, the Certificates and these Conditions are governed by, and shall be construed in accordance with, English law.

21.2 Subject to Condition 21.3, any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Trust Deed, the Certificates and these Conditions (including any dispute as to their existence, validity, interpretation, performance, breach or termination of the Trust Deed, the Certificates and these Conditions or the consequences of the 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 under the LCIA Arbitration Rules (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition. For these purposes:

(a) the seat of arbitration shall be London;

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

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

21.3 Notwithstanding Condition 21.2 above, the Delegate (or, but only where permitted to take action in accordance with the terms of the Trust Deed, any Certificateholder) may, in the alternative, and at its sole discretion, by notice in writing to the Trustee:

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

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 21.4 and, subject as provided below, any arbitration commenced under Condition 21.2 in respect of that Dispute will be terminated. With the exception of the Delegate (whose costs will be borne by the Trustee, failing which DIB), each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the Trustee must promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

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

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

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

21.4 In the event that a notice pursuant to Condition 21.3 is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England 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 and DIB agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary;

(c) this Condition 21.4 is for the benefit of the Trustee, the Delegate and the Certificateholders only. As a result, and notwithstanding paragraph (a) above, the Trustee, the Delegate and any Certificateholder (where permitted so to do) may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law, the Trustee, the Delegate and the Certificateholders may take concurrent Proceedings in any number of jurisdictions.

21.5 Each of the Trustee and DIB has in the Trust Deed 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 approved by the Delegate as its agent for service of process in England in respect of any Proceedings or Disputes. Nothing herein shall affect the right to serve proceedings in any matter permitted by law.

21.6 Under the Trust Deed, 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.

21.7 Each of the Trustee, the Delegate and DIB has agreed in the Trust Deed 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 Trust Deed, it will:

(a) not claim interest under, or in connection with, such arbitration and/or Proceedings; and

(b) 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.

USE OF PROCEEDS

The net proceeds of each Series issued will be paid by the Trustee (as Purchaser) to the Seller for the purchase from the Seller of all of its rights, title, interests, benefits and entitlements in, to and under the relevant Initial Portfolio.

DESCRIPTION OF THE TRUSTEE

General

DIB Sukuk Limited, a Cayman Islands exempted company with limited liability, was incorporated on 30 April 2012 under the Companies Law (2011 Revision) of the Cayman Islands with company registration number 268522. The Trustee has been established as a special purpose vehicle for the sole purpose of issuing Certificates under the Programme and entering into the transactions contemplated by the Transaction Documents. The registered office of the Trustee is at MaplesFS Limited, 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.$1.00 par value 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 trust deed (the **Share Trust Deed**) dated 10 May 2012 under which the Share Trustee holds the Shares in trust until the Termination Date (as defined in the Share Trust Deed). Prior to the Termination Date, the trust is an accumulation trust, but the Share Trustee has the power to benefit Qualified Charities (as defined in the Share Trust Deed). 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 has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the Certificates to be issued under the Programme. 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 30 April 2012.

Financial Statements

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.

Directors of the Trustee

The Directors of the Trustee are as follows:

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

The business address of Andrew Millar is c/o Maples Fund Services (Middle East) Limited, Office 801, 8th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates. The business address of Cleveland Stewart is c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman KY1-1102, Cayman Islands.

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

The Administrator

MaplesFS Limited will also act as the administrator of the Trustee (in such capacity, the **Trustee Administrator**). The office of the Trustee Administrator will serve as the general business office of the Trustee. Through the office, and pursuant to the terms of the Corporate Services Agreement, the Trustee Administrator will perform in the Cayman Islands or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Trustee and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Trustee and the Trustee Administrator will also enter 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 Trustee 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 the Registered Office Agreement provide that either the Trustee or the Trustee 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 Trustee Administrator will be subject to the overview of the Trustee's Board of Directors.

The Trustee 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 Trustee Administrator (or an affiliate thereof). The Trustee has no employees and is not expected to have any employees in the future.

DESCRIPTION OF DUBAI ISLAMIC BANK PJSC

Overview

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

The core business areas of DIB and its consolidated subsidiaries and associates (together, the **Group**) are Retail & Business Banking, Corporate Banking & Financial Institutions, Real Estate & Contracting Finance, Investment Banking and Treasury. The Group offers a wide range of Sharia-compliant products and services to retail, corporate and institutional clients through a network of 77 branches across the UAE. In addition to its main office and branches in Dubai, DIB operates across all the other Emirates of the UAE, namely Abu Dhabi, Ajman, Fujairah, Ras Al Khaimah, Sharjah and Umm Al Quwain.

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

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

- Awarded "Best Islamic Bank, UAE" World Finance—2012
- Awarded "Best Islamic Bank in the UAE" Asiamoney—2012
- Awarded "Best Structured Product for an Islamic Certificate Linked to the Deutsche Bank Liquid Commodities Apex Index" Banker Middle East—2012
- Awarded "Corporate Finance Deal of the Year (Emaar Malls Musharakah Syndicated Facility)" and "Restructuring Deal of the Year (Nakheel)" Islamic Finance News—2012
- Awarded "Structured Finance Deal of the Year (Salik One Wakala Syndicated Financing)"—2011
- Awarded "Mudaraba Deal of the Year—ENOC AED 1.1 billion" Islamic Finance—2011
- Awarded "Best Islamic Finance Bank in the UAE" Global Finance—2010
- Awarded "Most Innovative Islamic Bond Deal (IFC Sukuk)"—2010
- Awarded "Syndicated Deal of the Year (Saudi Bin Ladin Group Multi-Purpose Islamic Credit Facility)" Islamic Finance News—2010
- Awarded "Best Sukuk Bank" Global Finance—2009
- Awarded "Most Innovative Bond Deal in the Middle East (Tamweel Sukuk)" —2009

Key Financial Information and Business Ratios

The following tables set out selected key financial information and business ratios of DIB as at and for the three months ended 31 March 2012 and 31 March 2011 and as at and for the financial years ended 31 December 2011 and 31 December 2010.

Income Statement Highlights	**For the three months ended 31 March 2012**	**For the three months ended 31 March 2011**	**For the year ended 31 December 2011**	**For the year ended 31 December 2010**
	(*unaudited*)	(*unaudited*)		
		(AED millions)		
Income from Investing and Financing Assets	806	919	3,449	3,222
Total Income	1,225	1,285	5,005	4,709
Impairment Loss on financial assets	283	289	995	801
Impairment Loss on non financial assets	16	–	92	63
Depositors' share of profit	322	387	1,387	1,436
Net profit before tax	256	235	1,063	563
Net profit	253	234	1,056	559
Net profit attributable to equityholders	245	222	1,010	553

Financial Statement Highlights	**As at 31 March 2012**	**As at 31 December 2011**	**As at 31 December 2010**
	(*unaudited*)		
		(AED millions)	
Total Assets	92,508	90,588	89,884
Total Liabilities	82,567	80,415	79,611
Total Equity	9,942	10,174	10,273
Investing and Financing Assets – Gross	56,710	55,517	60,128
Impaired Assets	8,282	8,057	5,012
Collateral held	6,607	6,011	3,900
Provisions for impairment(1)	4,178	3,931	2,957
Customer deposits	68,153	64,771	63,447

Income Statement Highlights	**For the three months ended 31 March 2012**	**For the three months ended 31 March 2011**	**For the year ended 31 December 2011**	**For the year ended 31 December 2010**
	(*unaudited*)	(*unaudited*)		
		(U.S.$ millions)		
Income from Investing and Financing Assets	219	250	939	877
Total Income	334	350	1,363	1,282
Impairment Loss on financial assets	77	79	271	218
Impairment Loss on non financial assets	4	–	25	17
Depositors' share of profit	88	105	378	391
Net profit before tax	70	64	289	153
Net profit	69	64	288	152
Net profit attributable to equityholders	67	60	275	151

Financial Statement Highlights	As at 31 March 2012	As at 31 December 2011	As at 31 December 2010
	(*unaudited*)		
		(U.S.$ millions)	
Total Assets	25,189	24,667	24,475
Total Liabilities	22,483	21,897	21,678
Total Equity	2,707	2,770	2,797
Investing and Financing Assets – Gross	15,442	15,117	16,372
Impaired Assets	2,255	2,194	1,365
Collateral held	1,799	1,636	1,062
Provisions for impairment[(1)]	1,138	1,070	805
Customer deposits	18,558	17,637	17,276

Key Business Ratios	As at 31 March 2012	As at 31 December 2011	As at 31 December 2010
	(*unaudited*)		
		(%)	
Provision coverage ratio[(2)]	50.4	48.8	59.0
Overall coverage ratio[(3)]	130.2	123.4	136.8
Impaired ratio[(4)]	14.6	14.5	8.3
Total Capital Adequacy Ratio[(5)]	18.2	18.2	17.8
Return on Equity[(6)]	10.9	10.9	6.0
Return on Assets[(7)]	1.1	1.1	0.6

Notes:

(1) Balance at the end of the relevant period.

(2) Being the ratio of cash coverage to impaired financings.

(3) Being the ratio of cash coverage and collateral to impaired financings.

(4) Being the ratio of impaired assets to gross investing and financing assets.

(5) Calculated according to Central Bank methodology.

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

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

History

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

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

As part of its then current strategy to expand in select niche Islamic markets in the Middle East, Africa and Asia, DIB acquired a 60 per cent. stake in the Bank of Khartoum (**BoK**) in 2005, the largest bank in Sudan, which stake was subsequently reduced to 52 per cent. in 2008 (as at 31 March 2012, this stake has decreased further to 28.4 per cent.). In 2006, DIB established DIB Pakistan Ltd (**DIB Pakistan**), a 100 per cent. owned subsidiary, to offer Islamic banking services in Pakistan. DIB also acquired a 20.8 per cent. stake in Jordan Dubai Islamic Bank (**Jordan DIB**) in 2009. In addition to the above, DIB has incorporated several subsidiaries in real estate development (including, Deyaar Development PJSC (**Deyaar Development**) in 2002, presently an associate) and other related financial services companies (including DIB Capital Limited (**DIB Capital**) in 2006 and Dar Al Sharia Legal & Financial Consultancy LLC (**Dar Al Sharia**) in 2008). In

November 2010, DIB increased its stake in Tamweel to 58.3 per cent. (see "– *Subsidiaries and Associates – Tamweel*").

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

Shareholders and Capital Structure

Shareholders

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

Capital Structure

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

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

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

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

Overall Performance

Overview

DIB reported net profits of AED 253 million (U.S.$ 69 million) for the three month period ended 31 March 2012, as compared to AED 234 million (U.S.$ 64 million) for the three month period ended 31 March 2011. DIB's net funded income amounted to AED 653 million (U.S.$ 178 million) for the three month period ended 31 March 2012 compared to AED 654 million (U.S.$ 178 million) for the three month period ended 31 March 2011 despite lower average investing and financing assets during the three month period ended 31 March 2012 compared to during the same period in 2011. DIB achieved this principally as a result of its portfolio of investing and financing assets changing between the two periods to comprise a higher portion of consumer financing (which provide DIB with higher yields as compared to non-consumer financings) during the three month period ended 31 March 2012. Net funded income during the period ended 31 March 2012 was also supported by a reduction in market profit rates during that period which, in turn, decreased the profit rates that DIB paid to its depositors.

Non-funded income also remained steady at AED 250 million (U.S.$ 68 million) for the three month period ended 31 March 2012 from AED 244 million (U.S.$ 66 million) for the three month period ended 31 March 2011. Operating income (comprising the aggregate of net funded income and non funded income, each as described below) was AED 903 million (U.S.$ 246 million) and operating costs (comprising personnel expenses, general and administrative expenses and depreciation of investment properties) were AED 364 million (U.S.$ 99 million) for the three month period ended 31 March 2012 as compared to operating income of AED 898 million (U.S.$ 245 million) and operating costs of AED 362 million (U.S.$ 99 million) for the three month period ended 31 March 2011. Annualised return on shareholders' funds was 10.9 per cent. and the operating cost to operating income ratio was at 40.3 per cent. for the three month period ended 31 March 2012.

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

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

DIB's share of profits from its associates amounted to AED 29 million (U.S.$ 8 million) during the year ended 31 December 2011 as compared to its share of loss from its associate amounting to AED 1,100 million (U.S.$ 300 million) for the year ended 31 December 2010. DIB's share of losses of associates during 2010 principally reflected an impairment charge in respect of all of its major classes of assets recognised by Deyaar Development during that financial year. As noted above under "*Presentation of Financial and Other Information*", management of Deyaar Development re-tested this impairment charge on its assets during the financial year ended 31 December 2011 in light of then current market conditions and concluded that it should be increased. Accordingly, Deyaar Development re-stated its financial statements as at and for the year ended 31 December 2010 in its financial statements as at and for the year ended 31 December 2010. As a result, DIB made a prior year adjustment in the 2011 Financial Statements (see Note 59) as a result of which its share of losses from associates for the year ended 31 December 2010 was increased from AED 847 million (U.S.$231 million) to AED 1,100 million (U.S.$ 300 million) in the re-stated financial statements for the financial year ended 31 December 2010. No such losses were accounted for by Deyaar Development in 2011. Further, DIB also accounted for AED 637 million (U.S.$ 173 million) as a gain on acquiring a controlling interest in Tamweel in 2010 (see "– *Subsidiaries and associates*" below). No such exceptional gains were accounted for in 2011. DIB's annualised return on shareholders' funds was 10.9 per cent. and the operating cost to operating income ratio was at 41 per cent. for the year ended 31 December 2011.

For the purposes of the analysis set out above, **net funded income** is calculated as the aggregate of the following line items in DIB's consolidated income statement: (i) income from Islamic financing and investing assets, (ii) income from *Sukuk* and (iii) income from short-term international murabahats and wakala (line items (i), (ii) and (iii) together, **total funded income**) less depositors' 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 net profit for the three month periods ended 31 March 2012 and 31 March 2011 and the financial years ended 31 December 2011 and 31 December 2010:

	Net Profit for three month period ended 31 March 2012		Net Profit for three month period ended 31 March 2011		Net Profit for year ended 31 December 2011		Net Profit for year ended 31 December 2010	
	(unaudited)		*(unaudited)*					
	(AED millions, except percentages)							
Segmental Information								
Retail & Business banking	184	33%	187	30%	541	35%	543	16%
Wholesale banking	39	7%	83	13%	184	12%	128	4%
Real Estate	(152)	27%	(194)	31%	(255)	16%	(1,408)	42%
Treasury	114	20%	94	15%	440	28%	340	10%
Others	68	12%	63	10%	147	9%	956	28%
	253	**100%**	**234**	**100%**	**1,056**	**100%**	**559**	**100%**

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

Financing Assets	**Retail**		**Non-Retail**		**Consolidated**
	(AED millions, except percentages)				
Commodities murabahat	1,574	38%	2,558	62%	4,132
International murabahat (long term)	–	–	1,496	100%	1,496
Vehicles murabahat	5,012	88%	653	12%	5,665
Real Estate murabahat	993	28%	2,573	72%	3,566
Total murabahat	7,579		7,280		14,859
Istisna'a	143	4%	3,840	96%	3,983
Ijara	37	–	9,595	100%	9,632
Home Finance – Ijara	12,421	100%	–	–	12,421
Islamic credit cards	445	100%	–	–	445
Salam finance	3,531	100%	–	–	3,531
Total	24,156		20,715		44,871
Investing Assets					
Musharakat	56	1%	6,817	99%	6,873
Mudaraba	124	4%	3,142	96%	3,266
Wakalat	4	–	1,696	100%	1,700
Total	184		11,655		11,839
Total	**24,340**		**32,370**		**56,710**

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 52,532 million (U.S.$ 14,304 million) as at 31 March 2012, an increase of 1.8 per cent. from AED 51,586 million (U.S.$ 14,047 million) as at 31 December 2011 (AED 57,171 million (U.S.$ 15,567 million) as at 31 December 2010). The distribution of DIB's total portfolio of Islamic financing assets across economic sectors is oriented towards government, construction, real estate, trade, financial institutions, services and consumer banking, which is in line with the domestic economy.

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

As at 31 December 2011, 3.7 per cent. of DIB's gross Islamic financing and investing assets portfolio is located outside the UAE. DIB has implemented risk management methods to mitigate and control these and other market risks to which DIB is exposed (see "*Risk Management*" below).

DIB maintains a securities portfolio of high credit quality. DIB's policy continues to be to maintain exposures rated "BBB" and above (or the equivalent). DIB has had no direct exposure to collateralised debt obligations, structured investment vehicles and other sub-prime related issues. The securities portfolios are concentrated in the GCC and MENA markets (see further Notes 9 and 10 to the 2011 Financial Statements set out elsewhere in this Base Prospectus) and, in particular, 97 per cent. of the securities portfolios are concentrated in the UAE as at the date of this Base Prospectus.

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

	As at 31 March 2012		**As at 31 December 2011**		**As at 31 December 2010**	
	(unaudited)					
	(*AED millions, except percentages*)					
– Investments in *Sukuk*						
Available for sale	–	–	–	–	1,195	15%
Amortised cost	13,078	100%	12,560	100%	7,005	85%
	13,078		**12,560**		**8,200**	
– Other Equity Investments						
Investments carried at FVTPL[1]	54	3%	53	3%	108	6%
Investments carried at FVTOCI[2]	2,010	97%	1,981	97%	–	-
Available for sale	-		-		1,665	94%
	2,064		**2,034**		**1,773**	

Notes:

(1) Fair value through profit and loss.

(2) Fair value through other comprehensive income.

Capital Adequacy

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

See further "*Capital adequacy*" below.

	As at 31 March 2012	As at 31 December 2011	As at 31 December 2010
	(*unaudited*)		
		(AED millions)	
Capital Adequacy in accordance with Basel II	13,736	13,737	14,052
Capital base			
Risk weighted assets:	70,575	70,353	73,395
Credit Risk	1,223	1,175	1,986
Market Risk..	3,754	3,745	3,772
Operational Risk	**75,552**	**75,273**	**79,154**
Risk Asset Ratio (Basel II)	**18.2%**	**18.2%**	**17.8%**

Funding

DIB's bank and customer deposits together totalled AED 72,753 million (U.S.$ 19,810 million), AED 68,824 million (U.S.$ 18,740 million) and AED 67,856 million (U.S.$ 18,477 million) as at 31 March 2012, 31 December 2011 and 31 December 2010, respectively. Customer deposits amounted to AED 68,153 million (U.S.$ 18,558 million), AED 64,771 million (U.S.$ 17,637 million) and AED 63,447 million (U.S.$ 17,276 million) as at 31 March 2012, 31 December 2011 and 31 December 2010, respectively, and represented 93.7 per cent., 94.1 per cent. and 93.5 per cent. respectively, of total bank and customer deposits as at those dates.

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

	As at 31 March 2012		As at 31 December 2011		As at 31 December 2010	
	(unaudited)					
			(*AED millions, except percentages*)			
Customer Deposits............	68,153.1	73.7%	64,771.3	71.5%	63,447.1	70.6%
Due to banks	4,599.7	5.0%	4,052.4	4.5%	4,409.4	4.9%
Sukuk financing instruments......................	2,537.8	2.7%	4,174.0	4.6%	4,176.0	4.6%
Medium term wakala	3,752.5	4.1%	3,752.5	4.1%	3,752.5	4.2%
Other liabilities and zakat ..	3,523.4	3.8%	3,664.4	4.0%	3,826.3	4.3%
Equity	9,941.7	10.7%	10,173.8	11.2%	10,273.1	11.4%
	92,508.2	**100%**	**90,588.4**	**100%**	**89,884.4**	**100%**

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

Strategy

2012-2014 Strategic Summary

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

Prior to the on-set of the global credit crisis during 2008 and 2009 (see "*Risk Factors — Factors that may affect DIB's ability to fulfil its obligations under the Transaction Documents to which it is a party — Political, economic and related considerations*"), DIB pursued a strategy of growth within all of its business units. When the global credit crisis began, DIB altered its strategy in order to protect the bank from the effects of the crisis. In particular, DIB determined to focus growth within the retail sector and began to run-off its corporate real estate finance portfolio in order to attempt to protect itself from the down-turn in the UAE real estate sector. In anticipation of customer defaults arising from the credit crisis (in particular, in relation to the UAE real estate sector), DIB also significantly increased its impairment provisions during 2009 and 2010 in order to protect its Islamic financing and investing assets. In this connection, DIB's provisions for impaired financing assets increased from AED 1.2 billion (U.S.$ 0.3 billion) as at 31 December 2008 (equating to 2.3 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date) to AED 1.9 billion (U.S.$ 0.5 billion) as at 31 December 2009 (equating to 3.8 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date), to AED 3.0 billion (U.S.$ 0.8 billion) as at 31 December 2010 (equating to 5.2 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date) to AED 3.9 billion (U.S.$ 1.1 billion) as at 31 December 2011 (equating to 7.6 per cent. of DIB's portfolio of net Islamic financing and investing assets as at that date).

The most recent three-year plan (approved in November 2011) is a continuation of the broader strategic direction set by DIB and will conclude by the end of 2014. The plan aims to maintain DIB's position as the largest Islamic bank in the UAE and to establish DIB as one of the top five banks in the UAE, in terms of balance sheet size, and as a leading bank in all other markets where it has a presence. DIB's plan includes the following initiatives and goals:

- DIB's principal strategy for growing its business since the global liquidity crisis began has been, and continues to be, to expand its core Islamic finance business by enhancing retail banking products and services. DIB intends to enhance its retail banking business by expanding its branch network and by placing increased focus on developing new products and services and enhancing existing products and services such as investment sales and credit cards and brokering. In addition, DIB also intends to maximise opportunities for cross-selling more of its products to each of its existing customers and, in particular, has set itself a target of enhancing its cross-sell ratio by a minimum of 10 per cent. per annum for each of the next three years. In accordance with its principal strategy of growing its core retail banking business, DIB also plans to build Tamweel as the "specialist mortgage financing institution" for the Group.

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

- To position itself so that it is able to make selective growth within the corporate business line once that market re-opens. In order to achieve this, DIB intends to enhance its investment banking capabilities further in order to benefit from the increasing opportunities emerging in the Gulf region, particularly for Sharia-compliant corporate finance deals in the UAE and the wider region, by partnering with regional and international banks, conducting business through its subsidiaries and marketing activity in the region.

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

- To consider carefully any opportunity that may arise to attain geographical diversification by pursuing growth in GCC and select Islamic markets through acquisitions or establishing subsidiaries and branches.

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

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

DIB's strategy is continually monitored and reviewed by its management through the Balance Scorecard (**BSC**) approach. The BSC provides a framework for the development of an integrated strategy for improving organisational performance 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 approach is used in order to monitor the progress made on the three-year strategic plan. The approach identifies key performance attributes that DIB must achieve to reach its goals, while monitoring ongoing performance through a range of key measures, designed to recognise achievements and identify weaknesses. It communicates performance results across the whole organisation to support ongoing planning. The BSC framework forms an integral part of DIB's performance management system.

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

Competition and Competitive advantages

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

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

Strong and trusted brand

DIB believes that it has a very 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, there is little need to approach DIB's competition for alternative products.

Sharia compliance credibility

DIB maintains a highly reputed Fatwa and Sharia Supervisory Board (the **Sharia Board**). DIB aims for high levels of Sharia 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 very 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 conventional and Islamic banking products to ensure that they are well informed of international and regional developments.

Systematic approach to developing strategy

DIB adopts a systematic approach in developing its strategy by implementing the BSC method. This provides an important framework for developing an integrated strategy and measuring performance. Implementation of the BSC method across the whole organisation allows DIB to ensure that it meets its short and long term strategic objectives.

Links with the Government of Dubai

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

Links with the community

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

Business activities

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

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

The following table sets out a breakdown of certain income and profit information for each of DIB's primary reporting segments for the three month periods ended 31 March 2012 and 31 March 2011.

	Retail and business banking		Wholesale banking		Real estate		Treasury		Others		Total	
	31 March (unaudited)		31 March (unaudited)		31 March (unaudited)		31 March (unaudited)		31 March (unaudited)		31 March (unaudited)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	(AED millions)											
Net operating revenue	461.2	487.6	355.3	386.6	(133.3)	(166.7)	119.4	99.5	100.6	90.6	903.2	897.6
Share of profit/(loss) of associates	–	–	15.6	7.6	–	(18.2)	–	–	–	–	15.6	(10.6)
Operating expenses	(214.5)	(221.5)	(97.2)	(102.3)	(18.5)	(8.7)	(5.2)	(5.3)	(28.7)	(24.5)	(364.0)	(362.2)
Provision for impairment	(62.6)	(78.8)	(234.7)	(209.3)	–	–	–	–	(1.4)	(1.5)	(298.6)	(289.6)
Profit for the period before tax	184.1	187.3	39.1	82.6	(151.8)	(193.6)	114.2	94.3	70.5	64.6	256.2	235.2
Income tax											(2.9)	(1.6)
Profit for the period											253.3	233.7

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

	Retail and business banking		Wholesale banking		Real estate		Treasury		Others		Total	
	31 Mar 2012 *(unaudited)*	31 Dec 2011 *(auduted)*	31 Mar 2012 *(unaudited)*	31 Dec 2011 *(auduted)*	31 Mar 2012 *(unaudited)*	31 Dec 2011 *(auduted)*	31 Mar 2012 *(unaudited)*	31 Dec 2011 *(auduted)*	31 Mar 2012 *(unaudited)*	31 Dec 2011 *(auduted)*	31 Mar 2012 *(unaudited)*	31 Dec 2011 *(auduted)*
	(AED millions)											
Segment assets	24,282.2	23,916.9	33,531.9	31,791.1	3,908.2	3,875.0	14,330.0	13,940.1	16,456.0	17,065.4	92,508.2	90,588.5
Segment liabilities and equity	46,792.6	47,519.5	25,186.1	20,893.6	455.2	897.8	8,463.3	8,716.5	11,611.0	12,561.0	92,508.2	90,588.5
Capital expenditure	4.4	17.4	4.4	17.4	–	–	2.9	11.6	2.9	11.6	14.7	58.1

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 77 branches (including 33 in Dubai, 25 in Sharjah and 16 in Abu Dhabi), 410 automated teller machines (**ATMs**), 94 cash deposit machines (**CDMs**), three electronic branches ("e-branches") across the UAE (each as at the date of this Base 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 Sharia compliant manner. DIB has established itself as one of the leading providers of auto financing in the UAE.

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

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

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

Small business finance: The RBB also offers Sharia compliant financing solutions to small businesses. The products are generally tailored to the needs of each client.

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

IPO / capital markets subscription services: DIB offers subscription services on selected IPOs. DIB provides this service to companies approved for investment in accordance with Sharia law.

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

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

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

Other Delivery Channels: In addition to its 77 branches in the UAE, DIB has expanded into self-service electronic delivery channels by offering services such as internet banking, telephone banking and e-branches:

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

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

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

Corporate Banking & Financial Institutions

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

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

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

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

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

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

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

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

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

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

Real Estate & Contracting Finance

Real Estate Finance

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

Standard Islamic financing products offered include Istisna financing, Murabaha acquisition finance, diminishing Musharaka and Ijara lease financing. DIB has also introduced products designed to restructure overdue facilities which financed real estate.

Contracting Finance

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

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

Investment Banking

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

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

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

Treasury

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

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

Subsidiaries and Associates

As of 31 March 2012, DIB had 52 consolidated subsidiaries, six significant associates and four significant joint ventures, details of which are set out in Notes 11, 18 and 19 of the 2011 Financial Statements. Of these, DIB considers the following to be key subsidiaries and associates in terms of revenue and future growth potential:

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

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

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

As at 31 March 2012, Tamweel's authorised, issued and paid up share capital was AED 1.0 billion (U.S.$ 0.3 billion). As at 31 March 2012, Tamweel had total assets of AED 10.5 billion (U.S.$ 2.9 billion), compared to AED 10.0 billion (U.S.$ 2.7 billion) as of 31 December 2011 and AED 10.2 billion (U.S.$ 2.8 billion) as of 31 December 2010. As of 31 March 2012, Tamweel had total equity of AED 2.3 billion (U.S.$ 0.6 billion), compared to AED 2.3 billion (U.S.$ 0.6 billion) as of 31 December 2011 and AED 2.2 billion (U.S.$ 0.6 billion) as of 31 December 2010.

For the three month period ended 31 March 2012, Tamweel's net profit was AED 18.1 million (U.S.$ 4.9 million), compared to AED 27.2 million (U.S.$ 7.4 million) during the three month period ended 31 March 2011. For the year ended 31 December 2011, Tamweel's net profit was AED 102 million (U.S.$ 27.8 million) compared to AED 26.0 million (U.S.$ 7.1 million) as of 31 December 2010.

On 22 December 2011, Tamweel established a U.S.$ 1,000,000,000 Trust Certificate Issuance Programme (the **Tamweel Sukuk Programme**). Certain of Tamweel's payment obligations under the transaction documents relating to the Tamweel Sukuk Programme are to be guaranteed by DIB where the relevant certificates issued under the Tamweel Sukuk Programme specify that such guarantee from DIB is applicable. As at the date of this Base 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 management process*".

DIB Pakistan (Pakistan): DIB Pakistan was incorporated as a wholly-owned subsidiary of DIB in 2006. It currently has over fifty branches in sixteen cities. DIB Pakistan's team comprises experienced professionals with previous experience at leading banks such as Citibank, Standard Chartered Bank and The Royal Bank of Scotland. DIB Pakistan offers a full range of Sharia compliant banking products in consumer banking, corporate and investment banking and wealth management. DIB Pakistan has an authorised share capital of U.S.$ 133.4 million and a paid up capital of U.S.$ 75.3 million as of 31 March 2012. As of 31 March 2012, DIB Pakistan's net assets were Pakistani Rupee 6,285.5 million (U.S.$ 69.9 million) compared to Pakistani Rupee 6,234.0 million (U.S.$ 69.3 million) as of 31 December 2011. For the three month period ended 31 March 2012, DIB Pakistan's profit before taxation was Pakistani Rupee 80.3 million (U.S.$ 0.9 million) compared to its profit before taxation of Pakistani Rupee 82.0 million (U.S.$ 0.9 million) as for the three month period ended 31 March 2011. For the year ended 31 December 2011, DIB Pakistan's profit before taxation was Pakistani Rupee 316.1 million (U.S.$3.5 million) compared to Pakistani Rupee 17.7 million (U.S.$ 197.1 thousand) as for the year ended 31 December 2010. For the purposes of this paragraph, Pakistani Rupees have been converted into U.S. dollars at a rate of Pakistani Rupee 89.95 to U.S.$ 1.00.

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. Deyaar is currently an associate of DIB. As of 31 March 2012, Deyaar's total assets were AED 6.7 billion (U.S.$ 1.8 billion) compared to AED 6.8 billion (U.S.$ 1.9 billion) as of 31 December 2011. For the three month period ended 31 March 2012, Deyaar Development's profit before taxation was AED 9.4 million (U.S.$ 2.6 million) compared to net income of AED 27.1 million (U.S.$ 7.4 million) as for the three month period ended 31 March 2011. For the year ended 31 December 2011, Deyaar Development's profit before taxation was AED 41.4 million (U.S.$ 11.3 million) compared to its loss before taxation of AED 2.9 billion (U.S.$ 0.8 billion) as for the year ended 31 December 2010. As described above under "*Overall Performance*", Deyaar Development restated the financial statements as at and for the year ended 31 December 2010 contained in its financial statements as at and for the year ended 31 December 2011 as a result of accounting for an increased impairment charge for goodwill as at 31 December 2010. Deyaar Development's authorised and paid up capital is U.S.$ 1.6 billion as of 31 March 2012.

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

Risk Management

Overview

Risk is inherent in DIB's activities but it is managed through a process of on-going 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 risk 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 the 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 analysis and methods reflect both the expected loss likely to arise in the normal course of business and unexpected losses resulting from unforeseen events, which are based on simple statistical techniques and probabilities derived from historical experience. DIB also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

Risk mitigation

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

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

DIB's market risk is managed on the basis of predetermined asset allocation across various asset categories and a continuous appraisal of movements in market conditions. DIB also continuously monitors expected changes in foreign currencies rate, bench mark profit rates and equity houses 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*" 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 and their predictive power with regard to default events.

Collateral

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

- mortgages over residential and commercial properties;

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

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

Islamic derivative financial instruments

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

Credit-related commitments risks

DIB makes available to its customers guarantees and letters of credit which require it to make payments in the event that its customer fails to fulfil certain obligations it owes to other parties. This exposes DIB to a similar credit risk to that faced by it in respect of its financing and investing assets, and these risks are mitigated by the same control processes and policies as described above.

Portfolio Concentrations

As described above, concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, in activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of DIB's performance to developments affecting a particular industry or geographic location. DIB's credit policies are structured to ensure that DIB is not over-exposed to a given client, industry or geographic area through diversification of financing and investment activities.

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

Portfolio Concentration	**31 December 2011**		**31 December 2010**	
	(AED millions, except percentages)			
Gross Islamic Financing and Investing Assets – By Industry Sector:				
Financial institutions	3,293.9	5.9%	3,428.6	5.7%
Real estate	17,159.1	30.9%	17,479.3	29.1%
Trade	2,130.4	3.8%	2,821.0	4.7%
Government	2,563.3	4.6%	4,860.7	8.1%
Manufacturing and services	7,604.6	13.7%	9,384.1	15.6%
Consumer home finance	12,728.0	22.9%	12,578.4	20.9%
Consumer financing	10,038.0	18.1%	9,576.0	15.9%
Total	**55,517.3**	**100%**	**60,128.1**	**100%**

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

Portfolio Concentration	31 December 2011		31 December 2010	
	(AED millions, except percentages)			
Gross Islamic Financing and Investing Assets – By geographical areas				
Within UAE	53,488.7	96.3%	58,003.8	96.5%
Outside UAE	2,028.6	3.7%	2,124.4	3.5%
Total	**55,517.3**	**100%**	**60,128.2**	**100%**

	Portfolio outstanding net of Future Profits	Non Performing Assets	Provisions Held	Non Performing/ Portfolio outstanding net of Future Profits	Provisions/ Non Performing
	(AED millions)			(%)	
31 December 2011	55,517	8,057	3,931	14.5	48.8
31 December 2010	60,128	5,012	2,957	8.3	59.0

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 bankruptcy;
- the availability of other financial support and the realisable value of collateral; and
- the timing of the expected cash flows under that Islamic financing or investing asset.

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

Collectively assessed allowances

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

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

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

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

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 2011 and 31 December 2010:

As at 31 December 2011

	Less than one month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
			(*AED thousands*)			
Assets:						
Cash and balances with Central banks	2,353,995	5,081,320	5,517,004	–	–	12,952,319
Due from banks and financial institutions	2,529,596	513,500	–	–	–	3,043,096
Islamic financing and investing assets	4,954,901	3,201,254	8,147,347	21,965,054	13,317,532	51,586,088
Investment in Islamic *Sukuk*	13	1,951	12,385	11,260,998	1,285,079	12,560,426
Other investments	–	–	586,761	1,447,628	–	2,034,389
Investments in associates	–	–	–	2,336,439	–	2,336,439
Properties under construction	–	–	–	105,284	–	105,284
Properties held for sale	–	–	–	504,472	–	504,472
Investment properties	–	–	–	1,785,205	–	1,785,205
Receivables and other assets	42,417	88,028	2,900,413	62,634	5,844	3,099,336
Property, plant and equipment	9,595	18,642	82,157	142,375	328,641	581,410
Goodwill	–	–	–	–	–	–
Total assets	**9,890,517**	**8,904,695**	**17,246,067**	**39,610,089**	**14,937,096**	**90,588,464**
Liabilities:						
Customers' deposits	8,200,872	6,781,147	28,294,049	21,472,142	23,107	64,771,317
Due to banks and other financial institutions	451,096	125,275	1,327,135	2,148,927	–	4,052,433
Sukuk financing instruments	–	2,357,074	–	1,816,909	–	4,173,983
Medium term wakala finance	–	–	–	3,752,543	–	3,752,543
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	–	–	121,076	–	–	121,076
Equity	–	–	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	10,235,124	9,437,387	30,933,564	29,327,158	10,655,231	90,588,464
Net maturities gap	**(344,607)**	**(532,692)**	**(13,687,497)**	**10,282,931**	**4,281,865**	**–**

At 31 December 2010

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

Liquidity risk management process

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

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

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

	31 March 2012	**31 December 2011**	**31 December 2010**
	(***unaudited***)		
		(AED millions)	
Liquidity ratios:			
Liquid assets[(1)]/total assets	20	20	17
Customer deposits/total deposits[(2)]	94	94	94
Net Financing and Investment assets/ customer deposits	77	80	90
Net Financing and Investment assets/total assets	57	57	63

Notes:

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

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

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

	31 March 2012	**31 December 2011**	**31 December 2010**
	(***unaudited***)		
		(AED millions)	
Customers' deposits:			
Current accounts	17,186.5	17,784.6	15,087.6
Saving accounts	11,146.7	10,848.6	10,047.0
Investment deposits	39,600.8	35,912.2	38,124.0
Margins (LC and guarantee margins)	185.9	192.8	188.1
Profit equalisation reserve	33.2	33.1	0.4
Total	**68,153.1**	**64,771.3**	**63,447.1**

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

	31 March 2012	**31 December 2011**	**31 December 2010**
	(***unaudited***)		
		(AED millions)	
Contingent liabilities:			
Letters of guarantees	6,998	7,511	8,774
Letters of credit	2,161	2,082	2,536
Total	**9,159**	**9,593**	**11,310**
Commitments:			
Capital expenditure commitments	329	316	389
Irrevocable undrawn facilities and commitments	9,472	8,757	12,567
Total	**9,801**	**9,073**	**12,956**
Total	**18,960**	**18,666**	**24,266**

As noted above, DIB is guarantor of Tanweel'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 obligation 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 2011 and 31 December 2011, please refer to Note 58.3.4 of the 2011 Financial Statements, set out elsewhere in this Base Prospectus.

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

- *Sukuk issuance*

  On 22 March 2007, DIB issued its U.S.$ 750,000,000 Trust Certificates due 2012 (the **Sukuk**) through DIB Sukuk Company Limited (a special purpose finance vehicle incorporated for this purpose). The Sukuk paid a quarterly periodic distribution amount calculated on the basis of three-month LIBOR plus a margin of 0.33 per cent. per annum. During 2010, DIB purchased an aggregate face amount of AED 58.0 million (U.S.$ 15.8 million) of the Sukuk at a discount, which included purchases made as part of a public cash tender offer. During 2009, DIB purchased an aggregate face amount of AED 340 million (U.S.$ 92.5 million) of the Sukuk at a discount. The aggregate outstanding face amount of the Sukuk were redeemed in full on 22 March 2012 in accordance with their terms.

- *Medium term wakala finance*

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

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

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

General Risk associated with the UAE Banking sector

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

Market risk

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

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

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 income into UAE dirham (see further Note 58.4.3 to the 2011 Financial Statements set out elsewhere in this Base 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 arise 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 clearly defines roles and responsibilities of individuals/units across different functions that are involved in performing various operational risk management tasks. DIB's operational risk management framework is intended to ensure that its operational risks are properly identified, monitored, managed and reported. Key elements of this framework include process mapping, setting up a loss data base, establishing key risk indicators (**KRIs**), risk analysis and risk management reporting.

DIB currently utilises ORMIS, an operational risk tracking system used to track operational risk events across its businesses. The system houses three years of operational loss data. The subject system is currently enhanced to automate KRIs and risk control self-assessment.

Each new product introduced by DIB is subject to a risk review and sign-off process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product.

Variations of existing products are also subject to a similar process. DIB's business and support units are responsible for managing operations risk in their respective functional areas. They operate within DIB's operational risk management framework and ensure that risk is managed within their respective business units. The day-to-day management of operational risk is carried-out through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key back-up procedures and business contingency planning.

Legal Risk

Overview

DIB has a full-time legal advisor 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 are 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 have paid claims to victims of the attacks. In total, the lawsuits named over 520 defendants. The defendants include among other entities numerous organisations, Islamic charities, and 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. It is not possible to quantify the liability of DIB in respect of the amounts claimed under such lawsuits due to the number of defendants involved and due to the difficulty in determining the monetary amount of damages suffered by the plaintiffs.

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, however the court accepted the motion to dismiss of 37 other defendants (being all of the other defendants whose motion to dismiss was being considered at the time). The New York Federal Court denied DIB's motion to dismiss due to the allegations by the plaintiffs that DIB was intentionally providing support to Al Qaeda and, therefore, the court held that it had reasonable grounds to continue the actions by ordering the commencement of documentation discovery (whereas the other defendants whose motions to dismiss were accepted, were considered to have acted without knowledge).

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

Notwithstanding that the claims against certain defendants have been dismissed, DIB currently remains a joint defendant with over 100 other defendants (being the remaining defendants of the initial 520 defendants who have not been dismissed from the claims). Two cases against DIB were recently dismissed (one in August 2010 and the other in March 2011) as the plaintiffs did not wish to carry on with this litigation, such that six cases are pending as at the date of this Base Prospectus.

DIB is currently at the discovery phase of this litigation. The discovery phase requires the plaintiffs and the defendants to put forward evidence by means of documents and witnesses to approve their case while dismissing the other party's case. Completion of the documentary discovery phase was scheduled for 30 January 2012 but, at the request of the other parties, the court has extended the close of the documentary discovery phase until 29 June 2012. During the documentary discovery phase, DIB will have to produce all the documents that it wishes to use in the defence of this case plus documents requested by the plaintiffs in the same proceedings. The depositions phase is expected to take place around July 2012 whereby DIB and the plaintiffs will call each other's witnesses to give evidence in this case. At the end of this stage, if DIB can prove that the plaintiffs have no basis in their claim, its lawyers can move the court for summary judgement with the intention of having the cases against DIB dismissed.

DIB believes that it has meritorious defences to these claims, and has defended itself, and intends to continue to defend itself, vigorously. No provision has been made as at 31 March 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 – Factors that may affect DIB's ability to fulfil its obligations under the Transaction Documents to which it is a party—9/11 Litigation*".

Capital adequacy

DIB calculates its capital adequacy ratio in accordance with the capital adequacy guidelines issued by the Central Bank. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure. In accordance with these guidelines, DIB must maintain a minimum capital adequacy ratio of 12 per cent.

DIB's Tier I capital adequacy ratio was 13.6 per cent. as of each of 31 March 2012 and 31 December 2011 as compared to 12.7 per cent. as of 31 December 2010. DIB's total capital adequacy ratio was 18.2 per cent. as of 31 March 2012 and 31 December 2011, compared to 17.8 per cent. as of 31 December 2010.

In accordance with Central Bank timelines, DIB has implemented the Basel II standardised approach in relation to credit risk, market risk and operational risk and steps are underway to move towards more advanced approaches towards risk based capital management.

Also, in line with the Basel III Accord (**Basel III**) requirements, the Central Bank is proposing a set of quantitative requirements which include the following:

- Liquidity Coverage Ratio (**LCR**): The LCR represents a 30 days stress scenario with combined assumptions covering both bank-specific and market-wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30 days stress scenario; and

- Uses to Stable Resources Ratio (**USSR**): The USSR represents the ratio of key uses of funds against funding sources used by banks post-assignment of stability factors to these sources. This is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets.

The qualitative requirements, as well as the USSR requirement, are expected to take effect in the coming months. The Central Bank expects that the USSR will be subject to an annual review and will be revised over time to ensure compliance with the Basel III Net Stable Funding Ratio by 1 January 2018 (being the timeline imposed by Basel III). The LCR took effect on 1 January 2012 although, as at the date of this Base

Prospectus, the Central Bank has not published any guidelines setting out how banks in the UAE must comply with the LCR. The initial compliance level will be set at a minimum of 50.0 per cent., increasing to a minimum of 100.0 per cent., in order to ensure compliance with the Basel III LCR by 1 January 2015 (being the timeline imposed by Basel III).

DIB has already commenced planning for the implementation of Basel III. In particular, DIB has already implemented the monitoring phase desired by the Central Bank (reflecting the LCR requirements described above).

Related parties

Certain related parties (principally major shareholders, associated companies, directors and senior management of DIB and companies of which they are principal owners) are customers of the Group in the ordinary course of business. The transactions with these parties were made on substantially the same terms, including profit and commission rates, as the case may be, and the requirements for collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve an amount of risk which was more than the amount of risk relating to such comparable transactions. No impairment allowances have been recognised against financing and investing assets extended to such related parties.

The tables below set out the amounts outstanding as at and for the three month period ended 31 March 2012, and as at and for the financial years ended 31 December 2011 and 31 December 2010 in respect of transactions entered into by DIB with related parties:

	As at 31 March 2012	**As at 31 December 2011**	**As at 31 December 2010**
	(*unaudited*)		
		(AED millions)	
Islamic Financing and Investing Assets	1,871.1	1,036.6	2,483.7
Customer Deposits	3,157.4	2,888.5	3,062.9
Contingent Liabilities	0.7	0.7	1.0

Income Statement Highlights	**For the three months ended 31 March 2012**	**For the three months ended 31 March 2011**	**For the year ended 31 December 2011**	**For the year ended 31 December 2010**
	(*unaudited*)	**(*unaudited*)**		
		(AED millions)		
Income from Islamic Financing and Investing Assets	14.1	23.4	64.4	71.9
Depositors' Share of Profits	19.1	34.2	108.0	108.4

Information Technology

DIB recognises the importance of information technology in assisting it to reach 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 traditional 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 assuring availability and reliability of business services to customers as well as internally to staff, and also to allowing DIB to utilise an enhanced Islamic financing system.

DIB is also committed to the introduction of specific technology management systems, including Treasury, Asset and Liability, and HR management systems which will help it meet growing competition and market pressures. DIB most recently completed a significant upgrade of its infrastructure, after a detailed evaluation process, in 2007.

DIB is currently planning to make further developments to its IT infrastructure so that it is more streamlined with Tamweel's. DIB expects that this will reduce costs by eliminating unnecessary duplication between the two companies' IT systems.

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 have 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 the 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 black lists. DIB screens all customer names and payment details against applicable sanctions and blacklists, including those derived from, or published by, the Central Bank, United Nations, the United States' Office of Foreign Assets Control (**OFAC**) and the EU.

DIB's client acceptance/on boarding for correspondent banking services with other financial institutions' complies with the Wolfsberg Principles for Correspondent Banks in relation to anti-money laundering and corruption.

DIB provides ongoing training to employees in relation to a broad range of compliance issues. In particular, DIB has a compliance training programme whereby training is conducted on all applicable laws and regulations as well as changes to its AML and/ or CFT policies. This training includes identification and reporting of suspicious transactions. DIB has both classroom-based training as well as e-learning programmes that cover its KYC policy and AML and CFT methods. DIB retains records of its training sessions including attendance records and relevant training materials used.

Internal Audit

Risk management processes throughout DIB are audited periodically by its internal audit function which examines both the adequacy of its risk management procedures and DIB's compliance with them. Internal Audit discusses the results of its assessments with DIB's management, and reports its findings and recommendations to the Audit Committee.

Business Continuity Planning and Disaster Recovery

DIB has established strong 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 the all key technical systems at DIB's head office have on-site back-up systems.

In the event that DIB's head office back-up systems (described above) also fail, DIB second level of Business Continuity Planning (**BCP**) and Disaster Recovery (**DR**) which principally comprises an off-site DR site ensures further safety/security and is strategically located 125 km away from its head office (which is in line with ISO standards).

All critical processes and system contingencies have been established in accordance with global best practices and incorporate business impact analysis and risk impact analysis intended to minimise any negative effects of the same 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 form an integral part of 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 the bank has a sustained and robust BCP and DR environment.

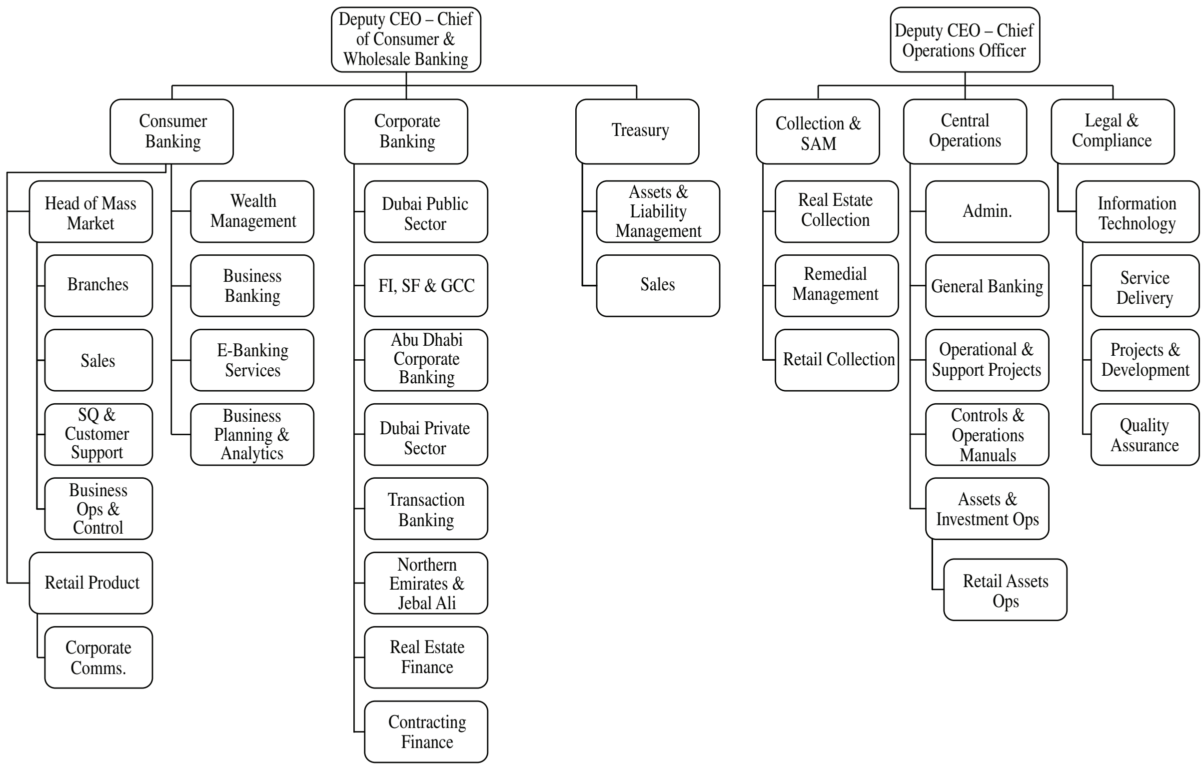
Tax

DIB is not subject to tax in Dubai or the United Arab Emirates, whether corporate or otherwise.

DIB may be subject to tax in other jurisdictions where it operates.

Management and Employees

The following chart summarises the principal features of the organisational structure within DIB:



Board of Directors

The members of the Board of Directors are elected by shareholders at a general meeting. DIB requires the majority of its members to be UAE nationals. Each member is appointed for a three-year term at the end of which the Board is re-instituted (which is next due to take place in 2014). The Board of Directors has the necessary power to manage DIB and act on its behalf.

The following table sets out the names of the current members of DIB's Board of Directors:

Name	Position
H.E. Mohammed Ibrahim Al Shaibani	Chairman
Dr. Tarik Humaid Al Tayer	Deputy Chairman
Mr. Khalid Ahmed Khalifa Al Suwaidi	Director
Mr. Abdulla Ali Al Hamli	Director
Mr. Ahmed Mohammed Said Bin Humaidan	Director
Mr. Yahya Saeed Ahmad Lootah	Director
Mr. Hamad Bin Abdulla Al Shamsi	Director
Mr. Abdullah Al Sayed Mohammed Al Hashimi	Director
Mr. Abdul Aziz Ahmed Al Muhairi	Director

The address of each member of the Board of Directors is P.O. Box 1080, Dubai, UAE. There are no conflicts of interest between the private interests or other duties of the Directors listed above and their duties to DIB. Each member of DIB's board of Directors is an independent and non-executive director of DIB.

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

H.E. Mohammed Ibrahim Al Shaibani

H.E. Al Shaibani is the Chairman of DIB, and is also a member of DIB's Board of Directors.

H.E. Al Shaibani also serves as Director General of H.H. The Ruler's Court, Government of Dubai and the Chief Executive Officer and Executive Director of the Investment Corporation of Dubai. He is also Chairman of the National Bonds Corporation and a Board Member of Emaar Properties, Shuaa Capital, Dubai Aerospace Enterprise Limited, The Knowledge Fund and International Humanitarian City. Since 1998, H.E. Al Shaibani has also held the position of President at the Dubai Office, a private management office for the Royal Family of Dubai.

H.E. Al Shaibani holds a degree in Computer Science.

Dr. Tarik Humaid Al Tayer

Dr. Al Tayer serves as Deputy Chairman of DIB, and is also a member of DIB's Board of Directors.

Dr. Al Tayer also serves as Director of the Al Tayer group of companies, Vice Chairman of the Sheikh Zayed Housing Programme, Director of ART Consultants and Chairman of the UAE Professional Football League.

Dr. Al Tayer holds a degree in Civil and Environmental Engineering from the University of Colorado, Denver, a Masters degree in Civil Engineering/Construction Engineering Management from the University of Colorado, Boulder, USA and a PhD in Civil Engineering from the University of Arizona, Tucson, USA.

Mr. Khalid Ahmed Khalifa Al Suwaidi

Mr. Al Suwaidi serves as a member of DIB's Board of Directors.

Mr. Al Suwaidi also serves as Chairman and Chief Executive Officer of Amjad Holding Group, and has previously served as a member of the Board of Directors of Abu Dhabi Islamic Bank and Abu Dhabi National Islamic Insurance Company.

Mr. Al Suwaidi holds a degree in Political Science from Al Ain University, UAE.

Mr. Abdulla Ali Al Hamli

Mr. Al Hamli has served as Chief Executive Officer of DIB since 2008, and is also a member of DIB's Board of Directors. Mr Al Hamli joined DIB in 1999. Before assuming the role of Chief Executive Officer, he served as DIB's Chief Information Officer where he oversaw the upgrade of its IT infrastructure. Mr Al Hamli is currently Chairman of Tamweel following his appointment to this position in November 2010.

Mr. Al Hamli also serves as Chairman of the property developer, Deyaar Development.

He holds a degree in Economics and Mathematics from Al Ain University, UAE.

Mr. Ahmed Mohammed Said Bin Humaidan

Mr. Bin Humaidan serves as a member of DIB's Board of Directors.

Mr. Bin Humaidan has over 22 years' experience in strategic thinking, strategic planning, projects management, leading improvements programmes and change management and also serves as Deputy Director General of H.H. The Ruler's Court, Government of Dubai. He has also previously served as the Director of Projects for The Executive Office of His Highness Sheikh Mohammad Bin Rashid Al Maktoum, Vice-President and Prime Minister of UAE and Ruler of Dubai.

Mr. Bin Humaidan holds a degree in Electrical Engineering from UAE University as well as a Business Administration diploma from Sheffield Hallam University, United Kingdom.

Mr. Yahya Saeed Ahmad Lootah

Mr. Lootah serves as a member of DIB's Board of Directors. In addition, Mr. Lootah serves as Executive Director of the S.S. Lootah Group and is a member of the board of directors of the Dubai Chamber of Commerce and Industry, as well as a member of the Board of Trustees of Dubai Medical College and the Advisory Board of the Faculty of Engineering at the American University in Dubai.

Mr. Lootah holds a degree in Civil Architectural Engineering as well as a Masters degree in Science in Engineering from the University of Bridgeport, USA.

Mr. Hamad Bin Abdulla Al Shamsi

Mr. Al Shamsi serves as a member of DIB's Board of Directors.

Mr. Al Shamsi also currently serves as the Chief Executive Officer of International Capital Trading Company, Chairman of the Board of Directors of Essdar Capital, and a member of the Board of Directors of the Abu Dhabi Stock Exchange, Finance House, Etihad Airways and Royal Jet.

Mr. Al Shamsi holds a degree in Business Administration from Al Ain University, UAE and has a Masters in Finance and Banking.

Mr. Abdullah Al Sayed Mohammed Al Hashimi

Mr. Al Hashimi serves as a member of DIB's Board of Directors. Mr. Al Hashimi also serves as a member of the Board of Directors of the UAE Society of Engineers, the Dubai Chamber of Commerce Committee of Arbitration, AWQAF Minor Affairs Foundation and the GCC Commercial Arbitration Centre, as well as serving as the Head of the Planning Department of the Dubai Municipality. He is also Director and owner of Al Hashimi.

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

Mr. Abdul Aziz Ahmed Al Muhairi

Mr. Al Muhairi serves as a member of DIB's Board of Directors. Mr. Al Muhairi also serves as a member of the Board of Directors of Bourse Dubai, Vice Chairman of the Support Fund and Chairman of the Supervisory Board of 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.

Key Senior Management

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

Name	Position
Mr. Abdulla Ali Al Hamli	Chief Executive Officer
Mr. Ahmed Fathy Al-Gebali	Chief Financial Officer
Dr. Adnan Chilwan	Deputy CEO—Chief of Consumer & Wholesale Banking
Mr. Mohamed Abdulla Al Nahdi	Deputy CEO—Chief Operation Officer
Mr. Naveed Ali	Chief of Corporate Banking
Mr. Mohammed Saleem	Chief of Treasury
Mr. Abbas Bhujwala	Chief Risk Officer

The address of each member of the senior management of DIB is P.O. Box 1080, Dubai, UAE. There are no conflicts of interest between the private interests or other duties of the senior management of DIB listed above and their duties to DIB.

Detailed below is brief biographical information on the senior management of DIB.

Mr. Abdulla Ali Al Hamli

Please see biographical information provided above for Mr. Al Hamli.

Mr. Ahmed Fathy Al-Gebali

Mr. Al-Gebali is the Chief Financial Officer of DIB and also the Executive Vice President of DIB's Financial Group. He was appointed to these positions in December 2010. Before assuming the role of Chief Financial Officer, Mr. Al-Gebali served as Group Chief Financial Officer of Boubyan Bank (Kuwait), Vice Chairman of Boubyan Takaful and Board Member of Boubyan Capital. He also previously held positions at Global Investment House (Kuwait), Gulf Investment House (Kuwait) and Kuwait Financial Centre (Kuwait).

Mr. Al-Gebali also serves as technical member for the corporate governance standard working group and Islamic Money Market working group of the Islamic Financial Service Board in Malaysia.

He holds a degree in finance from Ain Shams University, Egypt, a diploma in Computer Science from American University, Cairo and an MBA from the American University of London as well as a CPA from the University of Illinois CPA board USA.

Dr. Adnan Chilwan

Dr. Chilwan has served as Deputy CEO – Chief of Consumer & Wholesale Banking of DIB since 2008. He has over 16 years' worth of banking experience with both conventional and Islamic banks in the Gulf region such as DIB, Dubai Bank (UAE), Commercial Bank of Qatar (Qatar), Mashreqbank (UAE), Abu Dhabi Islamic Bank (UAE) and HSBC (UAE).

Dr. Chilwan represents DIB on the boards of various strategic investments, subsidiaries and associates. He is currently Chairman, Islamic Financial Services (the brokerage arm of DIB); Board Member, DIB Capital (investment bank of DIB); Board Member, Deyaar Development; Board Member, Liquidity Management Centre (Investment Centre in Bahrain); Board Member, Dar Al Shari'a and a Board Member of Millennium Private Equity. He is also a member of the DIB's Investment Committee, the DIB ALCO, Management Credit Committee, Automation Committee and Executive Committee.

Dr. Chilwan has a PhD and a MBA in Marketing. He is a Certified Islamic Banker (CeIB), a Post Graduate in Islamic Banking & Insurance and an Associate Fellow Member in Islamic Finance Professionals Board.

Mr. Mohamed Abdulla Al Nahdi

Mr. Al Nahdi has served as Deputy CEO—Chief Operation Officer of DIB since July 2008, overseeing the critical support functions of DIB.

Mr. Al Nahdi has over 26 years' worth of leadership experience gained in the banking sector. Before joining DIB, Mr. Al Nahdi was Chief Retail Banking Officer at Dubai Bank. He began his career with HSBC, holding various positions within the personal banking, corporate banking, branches, trade finance, operations and remittances departments of that bank.

Mr. Al Nahdi also serves as a board member of each of DIB Capital, Tamweel and Deyaar Development. He holds a degree in Accountancy and Administration from Baghdad University, Iraq.

Mr. Naveed Ali

Mr. Ali has served as Chief of Corporate Banking at DIB since June 2003.

Mr. Ali has over 24 years' worth of banking experience with both conventional and Islamic banks. Before joining DIB, Mr. Ali was Vice President of the Commercial Banking Group at MashreqBank (UAE). He began his career with Habib Credit & Exchange Bank (Pakistan).

Mr. Ali holds a degree in Science from the University of Karachi, Pakistan.

Mr. Mohammed Saleem

Mr. Saleem has served as Chief of Treasury at DIB since July 2006.

Mr. Saleem has over 28 years' worth of banking experience with both conventional and Islamic banks, including Standard Chartered Bank (Pakistan and UAE), Societe Generale (Bangladesh and Pakistan) and Union National Bank (UAE). Before joining DIB, Mr. Saleem was Treasurer at Standard Chartered Bank (Pakistan).

Mr. Saleem holds a degree in Commerce.

Mr. Abbas Bhujwala

Mr. Bhujwala has served as the Chief Risk Officer of DIB since June 2010. Before that he headed DIB's Credit Approval team and was responsible for corporate and institutional credit. Mr. Bhujwala has over 30 years' worth of banking experience. Before joining DIB, Mr. Bhujwala worked at Faysal Bank and Standard Chartered Bank in the Middle East region, holding various senior positions in both institutions, including head of business and risk management at Faysal Bank and Standard Chartered Bank (Dubai). Mr. Bhujwala holds a degree in management from the University of Karachi, Pakistan.

Executive Committee (ExCo)

The members of ExCo include: the Chief Executive Officer, both Deputy CEOs, the Chief Risk Officer, the Senior Executive Vice President of Business Services, the Chief Financial Officer, the Chief Executive Officer of DIB Capital and the Head of Human Resources.

ExCo's key responsibilities include setting the strategic direction of DIB and reviewing DIB's performance in line with defined strategic objectives.

Fatwa and Sharia Supervisory Board

The Sharia Board comprises scholars of high repute with extensive experience in law, economics and banking systems. The Sharia Board is appointed by DIB's shareholders at a general meeting and its responsibilities include supervising the development and creation of innovative Sharia compliant products, issuing fatwas on any matter proposed to it by business units of DIB, ensuring (via Sharia auditors) that transactions are carried out in compliance with Islamic principles and analysing contracts and agreements concerning DIB's transactions. DIB's full Sharia Board is supported by the Sharia Executive Committee (comprised of the Chairman of the Sharia Board and one other member of the Sharia Board) which has been mandated to provide Sharia approval for a number of DIB's products and investments on behalf of the full Sharia Board. DIB's Sharia Executive Committee meets on a weekly basis in order to be able to provide timely advice and approvals.

The Sharia Board works closely with Dar Al Sharia. Dar Al Sharia is responsible for reviewing and approving DIB's new products (including their structure, process and documentation) for Sharia compliance in the first instance and seeks guidance from the Sharia Board. Dar Al Sharia is comprised of a number of bankers, lawyers and Sharia Scholars with expertise in Sharia finance and was incorporated by DIB in 2008.

The Sharia Board submits an annual report to the General Assembly of DIB's shareholders and the Board summarising all the issues which have been referred to it, as well as its opinion on DIB's transactional procedures. The Sharia Board's annual report is included in DIB's annual audited financial statements.

The following table sets out the names of the current Sharia Board:

Name	**Position**
Professor Dr. Hussain Hamid Hassan	Chairman
Professor Dr. Ali Mohi Eldin Alqura Daghi	Vice Chairman
Professor Dr. Ajeel Jasim al Nashmi	Member
Sheikh Mohammed Abdul Razak Al Sedeiq	Member
Sheikh Dr. Mohammed Abdul Hakeim Zuair	General Secretary

Detailed below is brief biographical information on the members of the F&SB.

Professor Dr. Hussain Hamid Hassan

Dr. Hussain completed his PhD in the Faculty of Sharia from Al Azhar University, Egypt, Masters in Comparative Jurisprudence from University of New York, USA and graduated in Law and Economics from University of Cairo, Egypt.

Dr. Hussain is a prominent scholar and teacher, having established Islamic universities and Islamic faculties in various parts of the world including Makkah, Islamabad, Kazakhstan and Libya.

He has been advisor to the Presidents and leaders of various Islamic Republics, including acting as an advisor to Presidents of the Islamic Republic of Pakistan and to the Prime Minister of the Republic of Kyrgyzstan. He is also the President of the United States Muslim Jurists Association.

Besides DIB, Dr. Hussain is the Chairman of the Sharia Supervisory Boards of several Islamic financial Institutions including Tamweel, Emirates Islamic Bank, Sharjah Islamic Bank, Ajman Bank, Amlak Finance, Deutsche Bank, National Bonds Corporation, Liquidity Management Centre, AMAN Takaful Company, Jordan Dubai Islamic Bank and others, besides being a core member of the Sharia Board of Islamic Development Bank, the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the International Fiqh Academy.

Dr. Hussain is the author of various books and 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.

Professor Dr. Ali Mohi Eldin Alqura Daghi

Professor Dr. Ali Mohi Eldin Alqura Daghi has been a member of the Sharia Board since 1999. He holds a PhD in Sharia and Law, a Master in Comparative Fiqh, a Bachelor of Islamic Sharia and a Bachelor of Islamic Science. He is the author of 14 books and 27 research documents.

Professor Dr. Ajeel Jasim al Nashmy

Professor Dr. Ajeel is currently a Professor at Kuwait University where he works in the Faculty of Shari'a and Islamic Studies. Having completed his academic career at Al Azahr University and Kuwait University he achieved a PhD in Islamic Fiqh from Al Azahr. He has published in excess of seven books and 15 papers on contemporary matters relating to Islamic Sharia issues.

Sheikh Mohammed Abdul Razak Al Sedeiq

Sheikh Mohammed Abdul Razak Al Sedeiq has been a member of the Sharia Board since 1999. He holds a Master in Comparative Fiqh, a Diploma in Fiqh principles, a Master in Fiqh, a Master Diploma from the Faculty of Sharia and Law and is registered to commence a PhD in comparative Fiqh.

Sheikh Dr. Mohammed Abdul Hakeim Zuair

Dr. Zuair has a Doctorate and a Master Degree of Islamic Sharia from Al-Azhar University, Egypt. He also holds a Bachelor's Degree in Management Science. Dr. Zuair has over 25 years of Islamic banking experience and is considered as one of the pioneers of modern Islamic finance. Apart from being the member of the Sharia Board, Dr. Zuair sits on Sharia Boards of numerous prestigious financial institutions such as Tamweel and Amlak. He is the editor of Al Iqtisad Al Islami Magazine and has published research papers on various topics relating to Islamic Banking. Dr Zuair is also a well known teacher and trainer in the field of Islamic Banking.

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 would revert back to DIB. The senior management and functional heads are eligible to receive shares of DIB, and there is a provision in the Employee Stock Ownership Plan to award shares of DIB to potentially high performers at any level. Employees

As of 31 March 2012, DIB had 1,691 employees, compared to 1,667 employees as of 31 December 2011 and 1,619 employees as of 31 December 2010. DIB's Emiratisation level has remained stable over the last few years. As of 31 March 2012, DIB had an Emiratisation level of 46.01 per cent. compared to 46.13 per cent. as of 31 December 2011 and 45.89 per cent. as of 31 December 2010. DIB had a staff turnover of around 14.07 per cent. for the period between 31 December 2010 and 31 December 2011.

OVERVIEW OF THE UNITED ARAB EMIRATES

The UAE is a federation of seven Emirates. The federation was established on 2 December 1971. On formation, the federation comprised the following Emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm Al-Qaiwain and Fujairah. Ras Al Khaimah joined in February 1972. The president of the UAE is Sheikh Khalifa bin Zayed Al Nahyan who is also the Ruler of Abu Dhabi. The Ruler of Dubai is Sheikh Mohammed bin Rashid AI Maktoum who is the Vice President and Prime Minister of the UAE.

The federation is governed by the Supreme Council of the Rulers of the seven Emirates (the **Supreme Council**). The Supreme Council elects from its own membership the President and the Vice President (for renewable five year terms). Decisions relating to substantive matters are decided by a majority vote of five Emirates (provided that the votes of both Dubai and Abu Dhabi are included in that majority), but matters that are purely procedural are decided by a simple majority vote.

The UAE is the second largest economy in the GCC region after the Kingdom of Saudi Arabia and has been steadily growing over the last decade, faltering only twice, in 1998 and 2001, due to lower oil prices and the Organisation of the Petroleum Exporting Countries (**OPEC**)-mandated production cuts. Although it 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 2010, the UAE had approximately 6.7 per cent. of proven global oil reserves (giving it the sixth largest oil reserves in the world). According to the BP Statistical Review of World Energy published in June 2011, the UAE had, at 31 December 2010, approximately 7.1 per cent. of proven global oil reserves (continuing to give it the sixth largest oil reserves in the world as at that date). 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 robust growth in its non-oil sector and the sizeable wealth of the Government of Abu Dhabi. 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.

The UAE National Bureau of Statistics has estimated on a preliminary basis that real GDP in the UAE for 2010 was AED 977.3 billion, representing a real GDP growth rate of 1.4 per cent., reflecting the general economic recovery in the wake of the global economic crisis and the increase in oil prices during 2010. In 2009, the UAE National Bureau of Statistics estimated that real GDP in the UAE was AED 963.5 billion, representing a real GDP growth rate of minus 1.6 per cent.

On 23 April 2010, Moody's reaffirmed the UAE's long-term rating of Aa2 with a stable outlook. In its report, Moody's cited the fact that the Federal Government of the UAE is fully supported by the Government of Abu Dhabi.

The UAE population was estimated to have reached almost 8.3 million people in mid-2010 according to data released on 31 March 2011 by the UAE National Statistics Bureau.

The UAE enjoys good relations with the other states in the GCC and its regional neighbours. The UAE does have, however, a long-standing territorial dispute with Iran over three islands in the Gulf and, as such, is not immune to the political risks and volatility that have over-shadowed the region, particularly in the last couple of years. The economy remains heavily protected and nearly all utilities and most major industries are controlled by the state. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, foreigners are not permitted to have a controlling interest in UAE businesses and corporates. Reflecting this rule, many of the Emirates have established trade and industry free zones as a means of attracting overseas investment and diversifying the economy. Despite the UAE's membership in the WTO, progress towards economic liberalisation has been slow, though trade agreements with Europe and the United States are being negotiated.

THE UNITED ARAB EMIRATES BANKING SECTOR AND REGULATIONS

Summary

The global financial crisis has had an effect on the UAE banking sector and the key concerns facing the sector include a liquidity shortage and a fall in real estate and equities prices. Although the UAE could be viewed as an over-banked market, even by regional standards, there has traditionally been little impetus for consolidation. The UAE's membership in the WTO will require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

As a banking regulator, the Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the Central Bank.

Historically, the Central Bank does not act as a "lender of last resort", instead this role tends to fall on the individual Emirs of each Emirate.

Characteristics of the Banking System

Lack of Consolidation

The UAE may be seen as being over-banked with 51 different banks (comprised of 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 5 million people. Traditionally there has been little impetus for consolidation. However, mergers in the past have tended to come as a result of banks facing financial difficulties and some commentators suggest that the recent financial crisis has created more favourable conditions for consolidation. The federal structure of the country has, to some extent, encouraged the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also hampered the process of consolidation. However, in October 2007, the UAE's second and fourth largest banks, Emirates Bank International PJSC and National Bank of Dubai PJSC merged.

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 chasing 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 costs have been a prominent feature of many banks' expenses.

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

Sharia law forbids the charging of interest on any financial transaction. A number of banks 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, Emirates Islamic Bank, Dubai Bank, Noor Islamic Bank, Sharjah Islamic Bank, Ajman Bank, Dubai Islamic Insurance and Reinsurance Company (AMAN), Islamic Arab Insurance Co. (P.S.C.) (Salama), Tamweel and Amlak Finance. The number of Islamic banks continues to rise, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks. In addition, conventional financial institutions often offer Sharia-compliant products.

Legal Environment

There are three primary sources of law in the UAE: federal laws and decrees, local laws and *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler or local government will apply his or its own rules, regulations and practices.

Supervision of Banks

The main piece of legislation covering the banking system is Union Law No. 10 of 1980 (the **Union Law**) which established the Central Bank. The Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds—such as long-term liquidity or equity support—have historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the Government of Abu Dhabi would ultimately stand as de facto defender of the currency and the "lender of last resort".

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. dollars drawings against UAE dirhams CD holdings.

The UAE dirham is linked to the International Monetary Fund's Special Drawing Right. However, the U.S. dollar is the intervention currency and, in reality, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices.

The Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 4 of 2002 regarding the Criminalisation of Money Laundering. It has established an Anti-Money Laundering and Suspicious Cases Unit which acts as the financial intelligence unit and has issued a number of detailed regulatory instructions in pursuit of anti-money laundering policies and procedures. The UAE has also established a National Anti-Money Laundering Committee, which is responsible for coordinating anti-money laundering policy.

The UAE further strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law No. 1 of 2004 on Combating Terrorism Offences, which provided for the establishment of a National Anti-Terror Committee (the **NATC**). The NATC serves as a UAE inter-agency liaison.

Although the Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC. The Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

Lack of Developed Capital Markets

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the Abu Dhabi Securities Exchange (both of which were established in 2000), have grown rapidly over recent years, such growth has been affected by the recent global financial crisis.

During 2002, the Government of Dubai issued a decree establishing the DIFC. The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The NASDAQ Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In December 2009 the Dubai Financial Market announced its intention to acquire the NASDAQ Dubai, with completion of the acquisition having occurred in July 2010.

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 UAE Federal Government and as part of a policy of Emiratisation, banks were instructed, in 1999, to increase UAE nationals on their payroll to 40 per cent. by 2009. Generally, banks have been moving closer to, or have met, this target, providing better training and compensation for UAE nationals.

Accounting Standards

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with International Financial Reporting Standards (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector. Basel II was introduced effective as from 1 January 2008.

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 National banks, of which there are currently 23, are required to be public shareholding companies with a minimum share capital of AED 40.0 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there are currently 28, need to demonstrate that at least AED 40.0 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 which are not permitted to accept funds by way of deposits) and financial and monetary intermediaries (money and stockbrokers).

RECENT TRENDS IN BANKING

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil prices and strong economic conditions experienced in the UAE between 2004 and 2008 allowed UAE banks to expand significantly.

However, much of this growth focused on the real estate sector and equity financing which, in the context of the global financial crisis, may represent a risk to the UAE banking system. Equity prices declined generally in the UAE in 2008 but, more recently, have rebounded with the Abu Dhabi Securities Exchange's Abu Dhabi index declining from 2,743.6 at 31 December 2009 to 2,719.9 at 31 December 2010 and to 2,402.28 at 31 December 2011 before increasing to 2,611.13 at 29 February 2012, and the Dubai Financial Market index declining from 1,803.6 at 31 December 2009 to 1,630.5 at 31 December 2010 and to 1,353.4 at 31 December 2011 before increasing to 1,648.9 at 31 March 2012.

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 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 64.6 per cent. of total deposits of the UAE banking sector as at 31 December 2011. The UAE Federal Government and the public sector contributed approximately 22.6 per cent. of total deposits as at 31 December 2011. Non-resident and other sources contributed approximately 12.8 per cent. of total deposits as at the same date.

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 as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The Central Bank also established a CD repo facility (which also includes an Islamic-compliant version) under which banks can use CDs as collateral for dirham or U.S. dollar funding from the Central Bank.

In addition to these measures, the UAE Federal Government also provided AED 50.0 billion in deposits to UAE banks (as part of a larger AED 70.0 billion package) which, at the option of the banks, can be converted into Tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE (including DIB) have converted the UAE Federal Government deposits made with them into Tier 2 capital.

During 2008, Abu Dhabi government-owned institutions assisted certain Abu Dhabi banks in strengthening their capital base through the subscription of mandatory convertible securities and, in February 2009, the Abu Dhabi Government (acting through the Department of Finance) subscribed, in aggregate, a sum of AED 16.0 billion in subordinated Tier I Capital Notes issued by the five largest Abu Dhabi banks: National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank, Union National Bank and Abu Dhabi Islamic Bank.

A press statement issued by the Department of Finance of the Government of Dubai on 25 February 2009 announced that it had established a U.S.$20.0 billion funding programme and that the first tranche, valued at U.S.$10.0 billion with a five year tenure and paying a coupon rate of four 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 UAE Central Bank is expected to tighten 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 liquidity risk is well managed in the UAE in line with international best practices.

The proposed set of qualitative requirements include, *inter alia*, 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 proposed set of quantitative requirements include the LCR and USSR requirements set out above under "*Description of Dubai Islamic Bank PJSC – Capital Adequacy*".

Position of Depositors

There is 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 were restructured by the relevant government authorities. 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. Following therefrom, in May 2009 the UAE's National Federal Council approved a draft law guaranteeing federal deposits. However, until such time as the law is passed, there is no guaranteed government support.

Prudential Regulations

The Central Bank has supervisory responsibility for banking institutions in the UAE Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework has been implemented, aimed at providing the Central Bank with more up to date information on credit, market and operational risks within the banking sector.

Capital Adequacy

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Basel II was introduced effective 1 January 2008. 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 their 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 and will be reviewed at the start of 2011. As at the date of this Base 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. GCC sovereign debt is risk-weighted at nil per cent.

Whilst the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks are risk-weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.

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.

Credit Controls

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.

The Central Bank defines large exposures as any funded on-or-off balance sheet exposure to a single borrower or group of related borrowers exceeding prescribed limits. The large exposure limits (defined as a percentage of the bank's capital base) prior to April 2012 were as follows:

- to a single borrower or group of borrowers—7 per cent.;
- to a shareholder of the bank holding more than 5 per cent. of the bank's capital—7 per cent.;
- overseas interbank exposures—30 per cent. (UAE interbank exposures are subject to a 25 per cent. limit if their maturity is over one year, otherwise they are exempt from the regulations);
- to the bank's parent company, subsidiaries or affiliates—20 per cent. (60 per cent. for all such exposures in aggregate); and
- to Board members—5 per cent. (25 per cent. for all such exposures in aggregate).

Exposures above these limits are subject to Central Bank approval. Exposures to the government and sovereign risk are exempt from the regulations.

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 own funds; and

- no bank is permitted to grant loans or advances for the purpose of funding commercial or residential real estate construction in an amount exceeding 20 per cent. of its total deposits, unless it has prior authorisation from the Central Bank as an institution specialising in this type of business.

On 4 April 2012, the Central Bank published a circular (the **2012 Large Exposure Limits Circular**) amending certain of the large exposure limits set out above. The 2012 Large Exposure Limits Circular is effective as of its date, but UAE banks are permitted to maintain their existing positions, if not in compliance with the new limits, until 30 September 2012. The 2012 Large Exposure Limits Circular introduced new limits of 100 per cent, of the bank's capital base for all lending to UAE local governments and their non-commercial entities, together with a 25 per cent., limit to any single such borrower. Set out below is a table showing a summary of the changes introduced by the 2012 Large Exposure Limits Circular (defined as a percentage of the bank's capital base calculated under Basel II):

	New Limit		**Old Limit**	
	Individual	**Aggregate**	**Individual**	**Aggregate**
1. Federal government and their non-commercial entities	Exempt	Exempt	Exempt	Exempt
2. UAE local government and their non-commercial entities	25%	100%	Exempt	Exempt
3. Commercial entities of federal government and UAE local government	25%; max 15% funded	100%	25%	None
4. Shareholders who own 5 per cent. or more of the bank's capital and related entities	20%; max 10% funded	50%; max 25% funded	7%	None
5. Exposure to bank's subsidiaries and affiliates	10%	25%	20%	60%
6. Board members (funded and unfunded)	5%	25%	5%	25%

In addition, the aggregate of items 1 to 6 (inclusive) set out must the table above is not permitted to exceed 800 per cent. of the relevant bank's capital.

Provisions for Loan Losses

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. Any loans with either interest or principal in arrears by more than 180 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.

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.

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).

Purchase Agreement

The Master Purchase Agreement will be entered into on 21 May 2012 between DIB Sukuk Limited (in its capacities as Trustee and as Purchaser) and DIB (in its capacity as Seller) and will be governed by the laws of Dubai and, to the extent applicable therein, the federal laws of the UAE. A Supplemental Purchase Contract (together with the Master Purchase Agreement, each a **Purchase Agreement**) between the same parties will be entered into on the Issue Date of each Series and will also be governed by the laws of Dubai and, to the extent applicable therein, the federal laws of the UAE. Pursuant to the Purchase Agreement, the Seller will sell to the Purchaser, and the Purchaser will buy from the Seller, the relevant Initial Portfolio together with the transfer and assignment by the Seller to the Purchaser of all of the Seller's rights, title, interests, benefits and entitlements in, to and under the Assets which comprise the relevant Initial Portfolio. The relevant Initial Portfolio will also be identified in the applicable Final Terms.

Service Agency Agreement

The Service Agency Agreement will be entered into on 21 May 2012 between DIB Sukuk Limited (in its capacity Trustee) and DIB (as Service Agent of each Portfolio) and will be governed by English law.

Services

Pursuant to the Service Agency Agreement, the Trustee will appoint the Service Agent to service the Portfolio applicable to each Series. In particular, the Service Agent will, in relation to each Series, perform, amongst other things, the following services (the **Services**) as agent of the Trustee:

(a) it will service the Portfolio in accordance with the Investment Plan set out in the Schedule to the Service Agency Agreement (a copy of which will be scheduled to the relevant Supplemental Purchase Contract, which includes the annual amount of expected Portfolio Income Revenues (as defined below) of the Portfolio (the **Expected Portfolio Income Revenues Amount**), which shall be completed at the time of issue of the Series upon receipt from the Trustee of the relevant Supplemental Purchase Contract and the applicable Final Terms;

(b) it will ensure that, on the Issue Date of a Series at least 51 per cent. of the Value of the Portfolio is derived from Tangible Assets;

(c) it will use all reasonable endeavours to procure that, at all times following each Issue Date, at least 51 per cent. of the Portfolio Value is derived from Tangible Assets and in the event that, at any time, the aggregate Value of the Tangible Assets comprised within the Portfolio should fall below 51 per cent. of the Portfolio Value, the Service Agent will use all reasonable endeavours to acquire as soon as reasonably practicable thereafter sufficient Tangible Assets to raise such percentage to a level that is equal to or greater than 51 per cent. of the Portfolio Value at such time (whether through the substitution, or procuring the substitution by DIB pursuant to the Sale Undertaking, of Tangible Assets for Intangible Assets or the acquisition for and on behalf of the Trustee pursuant to paragraph (e) below, of further Tangible Assets through the reinvestment of Portfolio Principal Revenues). A breach of this requirement will not, however, constitute a DIB Event;

(d) it will at no time substitute any Asset(s) for any Asset(s) of a Value less than the Value of the Asset(s) so substituted;

(e) it will, on behalf of the Trustee, ensure that arrangements are in place for the sale of any Salam Asset (as defined in the Master Purchase Agreement) to a third party purchaser following its delivery by the seller of the Salam Asset for an amount equal to the purchase price paid for such Salam Asset together with an amount of profit thereon;

(f) it will use its best endeavours promptly to place (for and on behalf of the Trustee) all Portfolio Principal Revenues in acquiring, for and on behalf of the Trustee, further Tangible Assets and, to the extent insufficient Tangible Assets are available, to invest the cash sums representing such Portfolio Principal Revenues in Sharia Compliant Investments (being an investment product which is structured to comply with Sharia principles, including investment deposit with a Sharia compliant financial institution) until it can, using its best endeavours, place those sums in further Tangible Assets and such sums and Sharia Compliant Investments shall form part of the relevant Portfolio until they can be so placed;

(g) it will do all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers (and without the need for the consent of the Trustee) reasonably necessary to ensure the assumption of, and compliance by each Asset Obligor with its covenants, undertakings or other obligations under the Asset Contract to which it is a party in accordance with applicable law and the terms of the Asset Contract, in each case in respect of the Assets;

(h) it will discharge or procure the discharge of all obligations to be discharged by DIB (in whatever capacity) in respect of any of the Assets under all Asset Contracts, it being acknowledged that the Service Agent may appoint one or more agents to discharge these obligations on its behalf;

(i) it will pay on behalf of the Trustee any actual costs, expenses, losses and Taxes (as defined in the Service Agency Agreement) which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Portfolio, such actual costs, expenses, losses and Taxes will be reimbursed in accordance with the Service Agency Agreement;

(j) it will use all reasonable endeavours to ensure the timely receipt of all Portfolio Revenues, the delivery and subsequent sale of Salam Assets, investigate non-payment of Portfolio Revenues and non-delivery of Salam Assets and generally make all reasonable efforts to collect or enforce the collection of such Portfolio Revenues under all Asset Contracts as and when the same shall become due;

(k) it will ensure that all Portfolio Income Revenues are received free and clear of, and without withholding or deduction for, Taxes (as defined therein);

(l) it will use all reasonable endeavours to ensure that the Portfolio Income Revenues are at least equal to the Expected Portfolio Income Revenues Amount;

(m) it will maintain the Collection Accounts as described further under " – *Collection Accounts*" below;

(n) it will obtain all necessary authorisations in connection with any of the Assets and its obligations under or in connection with the Service Agency Agreement;

(o) it will use its best endeavours to maintain the Portfolio Value at least equal to the outstanding face amount of the relevant Certificates; and

(p) it shall use its reasonable endeavours to ensure that all Asset Obligors in respect of Tangible Assets maintain industry standard insurances and fulfil all structural repair and major maintenance obligations in respect of the relevant Tangible Assets (each in accordance with the terms of the relevant Asset Contracts relating to the Tangible Assets).

For the purposes of the Service Agency Agreement, **Value** means, in respect of any Asset, the amount in the Specified Currency (following conversion, if necessary, of any relevant amount(s) at the spot rate of exchange (as defined in the Service Agency Agreement)) determined by DIB on the relevant date as being equal to: (i) in the case of Tangible Assets which are leased on an *ijara muntahiah bittamleek* (financial lease) basis, the aggregate of all outstanding fixed rental instalment amounts payable by the lessee or other equivalent fixed instalment amounts payable by the obligor, in each case in the nature of capital or principal payments in respect of the relevant asset, (ii) in the case of Tangible Assets which are not leased on an *ijara* *muntahiah bittamleek* (financial lease) basis, the initial agreed value or the outstanding base amounts or other equivalent of aggregate fixed instalment amounts payable by the obligor or any other amounts in the nature of capital or principal payments in respect of the relevant asset, (iii) in the case of Other Tangible Assets, the outstanding capital or investment amounts, (iv) in the case of *ijara mousoofah fizzimmah* (forward *ijara*) real estate and non-real estate assets, the base amounts or aggregate of outstanding fixed rentals, (v) in the case of *murabaha* receivables under a *murabaha* (sale of commodities or goods on a cost plus basis) contract, the outstanding payment amount, and (vi) in the case of Salam Assets, the extent of the sale price corresponding to the outstanding deliverable assets, in each case determined by DIB as being equal to the value of that Asset on each day on which it remains part of the relevant Portfolio, and **Portfolio Value** means the sum of (a) the Value of each Asset comprised in the Portfolio at the relevant time and (b) any Portfolio Principal Revenues held by the Service Agent at the relevant time.

Records and documents

The Service Agent will undertake, in relation to each Series, that it will keep and maintain (and provide to the Trustee within 90 days of receiving a request in writing) all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Assets and all amounts credited to the Collection Accounts.

The Service Agent will agree in the Service Agency Agreement:

(a) to provide the Services in accordance with all applicable laws and regulations;

(b) to provide the Services with the degree of skill and care that it would exercise in respect of its own assets; and

(c) to service the Assets in accordance with Sharia principles as laid down by its Fatwa and Sharia Supervisory Board.

Service Agency Liabilities Amounts and Fees

The Trustee and the Service Agent will agree that any Service Agency Liabilities Amounts incurred by the Service Agent in providing the Services in relation to a Series shall be paid by the Trustee by way of the application of amounts standing to the credit of the Income Collection Account by the Service Agent on the Trustee's behalf in payment of such amounts (as described below) or otherwise on the final Dissolution Date. For these purposes, **Service Agency Liabilities Amounts** means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Service Agent or other payments made by the Service Agent on behalf of the Trustee in each case in providing the Services during a **Distribution Period** (being a period that corresponds with the relevant Return Accumulation Period under the Certificates), but does not include amounts in respect of Liquidity Facilities.

DIB shall be entitled to receive a fixed fee of U.S.$100 for acting as Service Agent under the Service Agency Agreement. In addition, following payment of all amounts due and payable under the Certificates of each Series on the final Dissolution Date, the Service Agent will be entitled to retain any amounts that remain standing to the credit of the Income Reserve Collection Account for its own account as an incentive payment for acting as Service Agent.

Asset Substitutions

In the Service Agency Agreement the Trustee and the Service Agent will agree that, in relation to each Series and provided no Dissolution Event has occurred and is continuing, DIB may at any time exercise its rights under the Sale Undertaking to substitute (and, upon any Asset ceasing to be an Eligible Asset, the Service Agent will procure that DIB uses all reasonable endeavours to so substitute) any one or more of the Assets as DIB may select (subject to any such Substituted Asset(s) being the Asset(s) ceasing to be Eligible Asset(s), if applicable) in accordance with the Sale Undertaking. The new Asset(s) for these purposes will be Eligible Assets (as defined in the Master Purchase Agreement) of a Value not less than the Value of the Substituted Asset(s) and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Service Agency Agreement and the Sale Undertaking.

Collection Accounts

In relation to each Series, the Service Agent will maintain three ledger accounts (such accounts being the **Principal Collection Account**, the **Income Collection Account** and the **Income Reserve Collection Account**) in its books (each of which shall be denominated in the Specified Currency) in which all revenues from the Assets (the **Portfolio Revenues**) will be recorded. The Portfolio Revenues include all rental and other amounts payable by the relevant Asset Obligor under the terms of the relevant Asset Contract, and all sale proceeds or consideration, damages, insurance proceeds, compensation or other sums received by the Service Agent or DIB in whatever currency in respect of or otherwise in connection with the relevant Assets. All Portfolio Revenues in relation to each Series will be recorded:

(a) to the extent that any such amounts comprise amounts in the nature of sale, capital or principal payments, expressed, whenever applicable, as an amount in the Specified Currency (following conversion, if necessary, of any relevant amounts at the spot rate of exchange determined by DIB) (**Portfolio Principal Revenues**) in the Principal Collection Account; and

(b) to the extent that any such amounts comprise amounts other than Portfolio Principal Revenues (**Portfolio Income Revenues**), in the Income Collection Account.

Amounts standing to the credit of the Income Collection Account relating to each Series will be applied by the Service Agent on each **Distribution Determination Date** (being the Business Day immediately prior to the relevant Periodic Distribution Date under the Certificates of the relevant Series) in the following order of priority:

(a) *first*, in repayment of any amounts advanced by way of a Liquidity Facility;

(b) *second*, in payment of any Service Agency Liabilities Amounts for the Distribution Period ending immediately before the immediately following **Distribution Date** (being the date which corresponds with the relevant Periodic Distribution Date under the Certificates of the relevant Series);

(c) *third*, the Service Agent will pay into the relevant Transaction Account an amount equal to the lesser of the Required Amount payable on the immediately following Periodic Distribution Date and the balance of the Income Collection Account; and

(d) any amounts still standing to the credit of the Income Collection Account immediately following payment of all of the above amounts shall be debited from the Income Collection Account and credited to the Income Reserve Collection Account.

For the purposes of the Service Agency Agreement, the **Required Amount** will mean an amount equal to the aggregate of the Periodic Distribution Amounts and any other amounts payable by the Trustee in respect of the relevant Certificates on each relevant Periodic Distribution Date.

The Service Agent will be entitled to deduct amounts standing to the credit of the Income Reserve Collection Account at any time and use such amounts for its own account, provided that such amounts shall be repaid by it if so required to fund a Shortfall (as defined and described below).

Shortfalls and Liquidity Facilities

If on a Distribution Determination Date (after (i) payment of the relevant amounts standing to the credit of the Income Collection Account into the relevant Transaction Account in accordance with paragraph (c) under "– *Collection Accounts*" above and (ii) taking into account any other payments made or to be made into the relevant Transaction Account pursuant to any other Transaction Document) there is a shortfall (each a **Shortfall**) between:

(a) the amounts standing to the credit of the relevant Transaction Account; and

(b) the Required Amount payable on the immediately following Periodic Distribution Date,

the Service Agent will pay into the relevant Transaction Account on that Distribution Determination Date from the amounts standing to the credit of the Income Reserve Collection Account (if any) an amount equal to the Shortfall (or such lesser amount as is then standing to the credit of the Income Reserve Collection

Account). If any Shortfall still remains after payment to the relevant Transaction Account of the amounts credited to the Income Reserve Collection Account (as described in this paragraph) and after payment to the relevant Transaction Account of all other amounts payable pursuant to any other Transaction Document, the Service Agent may either (A) provide Sharia compliant funding itself or (B) procure Sharia compliant funding from a third party, in each case, to the extent necessary, by payment of the same into the relevant Transaction Account, on terms that such funding is repayable (i) from Portfolio Income Revenues in accordance with the Service Agency Agreement or (ii) on the date on which the Certificates of the relevant Series are redeemed in full, to ensure that the Trustee receives on each Distribution Determination Date the Required Amount payable by it in accordance with the Conditions of the relevant Series on the immediately following Periodic Distribution Date (such funding in relation to a Series, a **Liquidity Facility**).

Payments under the Service Agency Agreement

The Service Agent will agree in the Service Agency Agreement that all payments by it under the Service Agency Agreement will be made without any deduction or withholding for or on account of tax unless required by law and (save as set out therein and without prejudice to paragraph (l) under "– *Services*" above) without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, the Service Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of the Service Agent under the Service Agency Agreement will be direct, unconditional, unsubordinated and (subject to the provisions of the Purchase Undertaking) unsecured obligations of the Service Agent which rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of DIB save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Purchase Undertaking

The Purchase Undertaking will be executed as a deed on 21 May 2012 by DIB in favour of DIB Sukuk Limited (in its capacity as Trustee) and the Delegate, and will be governed by English law. DIB will agree that, subject to the right of the Trustee to bring proceedings in any other court(s) of competent jurisdiction, the DIFC Courts shall have exclusive jurisdiction to settle any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Purchase Undertaking.

DIB will, in relation to each Series, irrevocably undertake in favour of the Trustee and the Delegate to purchase all of the Trustee's rights, benefits and entitlements in and to the relevant Portfolio on the relevant Scheduled Dissolution Date or any earlier Dissolution Date (other than where the Dissolution Date is a Certificateholder Put Option Date, as to which see below) for the relevant Series at the **Portfolio Exercise Price**, which shall be an amount in the Specified Currency equal to the aggregate of:

(a) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates of the relevant Series; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Service Agency Liabilities Amounts.

The Trustee will also be entitled to exercise the Purchase Undertaking following any exercise by the Certificateholders of any relevant Series of their right to require the Trustee to redeem their Certificates on a Certificateholder Put Option Date, in which case DIB will be required to purchase a portion of the relevant Portfolio (such portion to comprise the **Certificateholder Put Option Assets**) with an aggregate Value no greater than the aggregate face amount of the Certificates to be redeemed. The exercise price (the **Certificateholder Put Option Exercise Price** and, together with the Portfolio Exercise Price, each an **Exercise Price**) payable for the Certificateholder Put Option Assets will be an amount in the Specified Currency equal to the aggregate of:

(a) the product of (i) the aggregate face amount of the relevant Certificateholder Put Option Certificates and (ii) the Optional Dissolution Amount (Certificateholder Put) Percentage specified in the applicable Final Terms;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the relevant Certificateholder Put Option Certificates; and

(c) (only where no Certificate of the relevant Series remains outstanding following the exercise of the Certificateholder Put Option) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Service Agency Liability Amounts.

If the Delegate exercises any of the options described above, an exercise notice will be required to be delivered by the Delegate under the Purchase Undertaking.

DIB will undertake in the Purchase Undertaking that, to the extent that the sale and purchase or transfer and assignment of any interest in DIB's rights, title, interests, benefits and entitlements in, to and under of the Portfolio or the Certificateholder Put Option Assets, as the case may be, is not effective in any jurisdiction for any reason, it will (i) make payment of an amount equal to the purchase price by way of restitution to the Trustee immediately upon request and (ii) indemnify fully the Trustee for any shortfall between the amount in (i) and the amount required for the purpose of redemption in full of the outstanding Certificates of the relevant Series and, accordingly, the amount payable under any such indemnity will equal the relevant Exercise Price.

In addition, if DIB fails to pay all or part of any Exercise Price that is due in accordance with the Purchase Undertaking and provided that no Sale Agreement has been entered into, then DIB will agree in the Purchase Undertaking that it will irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as Service Agent for the provision of the Services in respect of the relevant Portfolio on the terms and conditions, *mutatis mutandis*, of the Service Agreement.

DIB will expressly declare in the Purchase Undertaking that:

(a) the relevant Exercise Price represents a fair price for the purchase of all of the Trustee's rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be;

(b) it shall irrevocably and unconditionally fully accept all or any ownership interest the Trustee may have in the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be, and, accordingly, shall not dispute or challenge all or any ownership interest the Trustee may have in any way; and

(c) if it breaches any declaration or undertaking set out in (a) or (b) above or if it or any administrator, liquidator or receiver of it disputes or challenges the rights, benefits and entitlements of the Trustee in, to and under the relevant Portfolio or the relevant Certificateholder Put Option Assets, as the case may be, DIB shall (as an independent, severable and separately enforceable obligation) fully indemnify the Trustee for the purpose of redemption in full of the relevant Certificates and, accordingly, the amount payable under any such indemnity claim will equal the relevant Exercise Price.

In the Purchase Undertaking, DIB will undertake that, so long as any Certificate is outstanding it shall not, and shall ensure that none of its Principal Subsidiaries will, create, or have outstanding, any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto creating and according to the Certificates the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution of the Certificateholders.

DIB has agreed that each of the following events will constitute a DIB Event:

(a) if default is made in the payment of: (A) any Portfolio Income Revenues (as defined in the Service Agency Agreement) to be paid into the Transaction Account by the Service Agent in accordance with the terms of the Service Agency Agreement and such default continues for a period of seven days; or (B) any Exercise Price to be paid by DIB under the Purchase Undertaking or Sale Undertaking, as the case may be, and such default continues for a period of seven days; or

(b) DIB defaults in the performance or observance of any of its other material obligations under or in respect of the Transaction Documents to which it is a party, unless, in the opinion of the Delegate, the default is capable of remedy and is remedied within 30 days after written notice thereof, addressed to DIB by the Delegate, has been delivered to DIB; provided, however, that the failure by DIB (acting in its capacity as Service Agent to perform or observe the obligations set out in Clause 3.1(c) of the Service Agency Agreement will not constitute a DIB Event; or

(c) at any time (following the expiry of any grace period permitted by applicable law) it becomes unlawful for DIB to perform or comply with any or all of its material obligations under the Transaction Documents to which it is a party; or

(d) if DIB for any reason declares a moratorium on the payment of any Indebtedness or in respect of any guarantee of any Indebtedness given by it; or

(e) any Indebtedness of DIB or any of its Principal Subsidiaries following valid demand or claim becomes due and payable prior to the stated maturity thereof (other than at the option of the debtor) or DIB or any of its Principal Subsidiaries fail to make any payment under any guarantee of any Indebtedness which is due and payable at the expiration of any grace period applicable thereto, provided that each such event shall not constitute a DIB Event unless the aggregate amount of all such Indebtedness, either alone or when aggregated with all other Indebtedness in respect of which such an event shall have occurred and be continuing, shall be more than US$10,000,000 (or its equivalent in any other currency or currencies); or

(f) any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable DIB lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Transaction Documents to which it is a party or (B) to ensure that those obligations are binding is not taken, fulfilled or done within 28 days of the Delegate giving notice in writing to DIB; or

(g) (A) DIB becomes insolvent or is unable to pay its debts as they fall due, (B) an administrator, receiver, or liquidator of DIB or the whole or any part of the undertaking, assets and revenues of DIB is appointed, unless set aside within 28 days of such appointment, (C) DIB takes any action or commences any negotiations or proceedings with a view to (i) any adjustment of a material proportion of the whole or a specified class or category of Indebtedness, or (ii) making a general assignment or an arrangement or composition with or for the benefit of its creditors, or (D) DIB ceases or threatens to cease to carry on all or any substantial part of its business provided always that this sub-paragraph (g)(C) or (D) shall not apply to 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

(h) an order or decree is made or an effective resolution is passed for the winding up, liquidation or dissolution of DIB, provided always that this paragraph (h) shall not apply to 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

(i) any event occurs which has an analogous effect to any of the events referred to in paragraphs (g) and (h) inclusive above; or

(j) any execution is levied against, or an encumbrancer takes possession of, the whole or 15 per cent. or more of the property, undertaking or assets of DIB and its Subsidiaries taken as a whole (calculated by reference to the Accounts of DIB) or any event occurs which under the laws of any jurisdiction has a similar or analagous effect, unless such enforcement proceedings are frivolous or vexatious or are being actively contested in good faith by DIB or the relevant Subsidiary; or

(k) DIB fails to comply with or pay any sum which amount shall not, in aggregate, be less than U.S.$10,000,000 (or the equivalent thereof in any other currency or currencies) due from it under any one or more final non-appealable judgments or any one or more final non-appealable orders made or given by any court of competent jurisdiction and such failure continues for a period of 30 days next following service by the Delegate on DIB of notice requiring the same to be paid/remedied; provided, however, that if the execution of any such judgement or order is stayed within that period of 30 days its value shall not count towards the U.S.$10,000,000 threshold amount described in this paragraph (k),

provided that, in the case of paragraph (b) and, in respect of a Principal Subsidiary only, paragraph (e), such events shall only be a DIB Event if the Delegate has certified that, in its opinion, such event is materially prejudicial to the interests of the Certificateholders.

For the purposes of the negative pledge to be given by DIB and the DIB Events:

Accounts means (in the case of DIB) its then latest audited consolidated financial statements and (in the case of the relevant Subsidiary) its then latest audited consolidated (if available) or non-consolidated financial statements, provided that if audited financial statements for any Subsidiary have not been prepared in respect of any relevant period, Accounts shall, in relation to that Subsidiary, mean its management accounts for the relevant period;

Indebtedness means any present or future indebtedness of any person for or in respect of any money borrowed or raised including (without limitation) any liability arising under sukuk or other securities or any moneys raised under any transaction having the commercial effect of borrowing or raising money;

Limited Indebtedness means any Indebtedness, the aggregate outstanding principal amount of which does not, at any time, exceed ten per cent. (10 per cent.) of the aggregate share capital and reserves of DIB as shown in its most recent audited consolidated financial statements prepared in accordance with International Financial Reporting Standards;

Non-recourse Project Financing Indebtedness means any Indebtedness incurred in connection with any financing of all or part of the costs of the acquisition, construction or development of any project, provided that (a) any Security Interest given by DIB or the relevant Principal Subsidiary, as the case may be, is limited solely to assets of the project, (b) the person providing such financing expressly agrees to limit its recourse to the project financed and the revenues derived from such project as the principal source of repayment for the monies advanced, and (c) there is no other recourse to DIB or the relevant Principal Subsidiary, as the case may be, in respect of any default by any person under the financing;

Permitted Indebtedness means the Non-recourse Project Financing Indebtedness, the Securitisation Indebtedness and the Limited Indebtedness;

Principal Subsidiary means:

(a) a Subsidiary of DIB whose revenues or assets represent not less than ten per cent. (10 per cent.) of the consolidated revenues or consolidated assets of DIB, as calculated by reference to the Accounts; or

(b) to which is transferred all or substantially all of the undertaking or assets of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall immediately become a Principal Subsidiary, but shall cease to be a Principal Subsidiary under this paragraph (b) (but without prejudice to paragraph (a) above) upon publication of DIB's next Accounts.

A report by the Head of Finance (or any person who at any time carries out the equivalent function of such person (regardless of such person's title)) of DIB that in his opinion a Subsidiary of DIB is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

Relevant Indebtedness means any Indebtedness other than Permitted Indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock, sukuk certificates or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

Securitisation Indebtedness means any Indebtedness incurred in connection with any securitisation of existing or future asset and/or revenues, provided that: (i) any Security Interest given by DIB or any of its Subsidiaries in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation; (ii) each party participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised; and (iii) there is no other recourse to DIB or any of its Subsidiaries in respect of any default by any person under the securitisation;

Security Interest means any mortgage, charge, lien or other security securing any obligation of any party; and

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

DIB will also agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made free and clear of, and without any deduction or withholding for or on account of any Taxes (as defined therein) unless required by law and (save as set out therein) without set off or counterclaim of any kind and, in the event that there is any deduction or withholding, DIB shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no such deduction or withholding had been made. The payment obligations of DIB under the Purchase Undertaking will be direct, unconditional, unsubordinated and (subject to the provisions described above) unsecured obligations of DIB which rank at least *pari passu* with all other present and future unsubordinated and unsecured obligations of DIB save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Sale Undertaking

The Sale Undertaking will be executed as a deed on 21 May 2012 by DIB Sukuk Limited (in its capacity as Trustee) in favour of DIB and will be governed by English law.

Pursuant to the Sale Undertaking and subject to the Trustee being entitled to redeem the Certificates of the relevant Series for tax reasons in accordance with Condition 10.2, DIB will, by exercising its right under the Sale Undertaking and serving an exercise notice on the Trustee no later than 45 days prior to the Tax Redemption Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio at the relevant Exercise Price. In addition, if the Optional Dissolution Right (Call) is specified in the applicable Final Terms as being applicable, DIB will, by exercising its right under the Sale Undertaking and serving an exercise notice on the Trustee no later than 45 days prior to the relevant Optional Dissolution Date, be able to oblige the Trustee to sell all of its rights, title, interests, benefits and entitlements in, to and under the relevant Portfolio at the relevant Exercise Price.

For these purposes, the **Exercise Price** will be an amount equal to the aggregate of:

(a) (where the Certificates of the relevant Series are to be redeemed for tax reasons in accordance with Condition 10.2) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date or (where the Certificates of the relevant Series are to be redeemed in accordance with Condition 10.3) the product of (i) the aggregate outstanding face amount of the Certificates of the relevant Series on the relevant Dissolution Date and (ii) the Optional Dissolution Amount (Call) Percentage specified in the applicable Final Terms;

(b) an amount equal to all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates; and

(c) an amount equal to the sum of any outstanding (i) amounts repayable in respect of any Liquidity Facility and (ii) any Service Agency Liabilities Amounts.

DIB will be able to exercise its rights under the Sale Undertaking to effect the in kind substitution of Assets, subject to any substitute Assets being Eligible Assets of a Value not less than the Value of the Substituted Assets. DIB will also be able to exercise its rights under the Sale Undertaking (following any purchase of Certificates by DIB or any Subsidiary of DIB pursuant to Condition 13) to provide for the transfer, assignment and conveyance to it of an undivided ownership interest (the **Cancellation Interest**) in the relevant Portfolio calculated as the ratio, expressed as a percentage, of the aggregate face amount of the relevant Certificates to be cancelled (the **Cancellation Certificates**) to the aggregate face amount of the Certificates of the relevant Series immediately prior to the cancellation of such Cancellation Certificates, all as more particularly described in the Sale Undertaking. The Cancellation Interest will be specified in a cancellation notice and will have a Value no greater than the aggregate face amount of the Certificates of the relevant Series so purchased. Transfer of the Cancellation Interest will occur against cancellation of such Certificates by the Principal Paying Agent pursuant to the Conditions.

Trust Deed

The Master Trust Deed will be entered into on 21 May 2012 between DIB, the Trustee and the Delegate and will be governed by English law. A Supplemental Trust Deed between the same parties will be entered into on the Issue Date of each Series and will also be governed by English law.

Upon issue of the Global Certificate initially representing any Series, the Master Trust Deed and the relevant Supplemental Trust Deed shall together constitute the Trust declared by the Trustee in relation to such Series.

The Trust Assets in respect of each Series comprise (unless otherwise specified in the relevant Supplemental Trust Deed), *inter alia*, the Trustee's rights, title, interest and benefit, present and future, in, to and under the relevant Portfolio, its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents (other than (i) in relation to any representations given to the Trustee by DIB pursuant to any of the Transaction Documents and any rights which have been expressly waived by the Trustee in any of the Transaction Documents and (ii) the covenant given to the Trustee pursuant to Clause 13.1 of the Master Trust Deed) and any amounts standing to the credit of the relevant Transaction Account.

Each Trust Deed will specify that, on or after the relevant Scheduled Dissolution Date or, as the case may be, Dissolution Date of a Series, the rights of recourse in respect of the relevant Certificates shall be limited to the amounts from time to time available and comprising the Trust Assets of that Series, subject to the priority of payments set out in the Trust Deed, the relevant Certificates and the Conditions. The Certificateholders have no claim or recourse against DIB Sukuk Limited in respect of any amount which is or remains unsatisfied and any unsatisfied amounts will be extinguished.

Pursuant to the Trust Deed, the Trustee will, in relation to each Series, *inter alia:*

(a) hold the relevant Trust Assets on trust absolutely for the relative Certificateholders *pro rata* according to the face amount of Certificates held by each Certificateholder; and

(b) act as trustee in respect of the relevant Trust Assets, distribute the income from the relevant Trust Assets and perform its duties in accordance with the provisions of the Trust Deed.

In the Master Trust Deed, the Trustee by way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name and on its behalf to execute, deliver and perfect all documents and to exercise all the present and future duties, powers, authorities and discretions (including but not limited to the authority to request instructions from any Certificateholders and the power to sub-delegate and the power to make any determinations to be made under each Trust Deed) vested in the Trustee by each Trust Deed that the Delegate may consider to be necessary or desirable in order upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction to perform the present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of each Trust Deed and any of the other Transaction Documents (provided that no obligations, duties, liabilities or covenants of the Trustee pursuant to the Master Trust Deed or any other Transaction Document will be imposed on the Delegate by virtue of such delegation). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and will not affect the Trustee's continuing role and obligations as trustee.

The Delegate will undertake in the Master Trust Deed that, following it becoming aware of the occurrence of a Dissolution Event in respect of any Series and subject to Condition 14 it shall (a) promptly notify the relevant Certificateholders of the occurrence of such Dissolution Event. Subject to the Delegate being indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing, the Delegate may take all such steps as are necessary to enforce the obligations of DIB (in whatever capacity it is acting) under the relevant Trust Deed and any other Transaction Document to which DIB (in whatever capacity) is a party.

The Master Trust Deed specifies, *inter alia*, that in relation to each Series:

(i) following enforcing or realising the relevant Trust Asset and distributing the net proceeds of the Trust Assets in respect of the relevant Series to the Certificateholders in accordance with the Conditions and the relevant Trust Deed the obligations of the Trustee in respect of the Certificates shall be satisfied and the right of the Certificateholders to receive any further sums shall be extinguished and neither the Trustee nor the Delegate shall be liable for any further sums and, accordingly, the relevant Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum or asset in respect of the relevant Certificates or the relevant Trust Assets;

(ii) no Certificateholder shall be entitled to proceed directly against the Trustee and/or DIB, or provide instructions (not otherwise permitted by the Trust Deed) to the Delegate to proceed against the Trustee and/or DIB under any Transaction Document unless (i) the Delegate having become bound so to proceed, fails to do so within a reasonable period of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders of the relevant Series who propose to proceed directly against the Trustee or DIB, as the case may be) holds at least one-fifth of the then aggregate outstanding face amount of the Certificates of the relevant Series. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than pursuant to 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;

(iii) the Delegate shall not be bound in any circumstances to take any action to enforce or realise the relevant Trust Assets or take any action against the Trustee and/or DIB under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least one-fifth of the then aggregate outstanding face amount of the Certificates of the relevant Series and in either case then only if it is indemnified and/or secured and/or prefunded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing provided that the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders; and

(iv) after enforcing or realising the relevant Trust Assets and distributing the net proceeds of the relevant Trust Assets in accordance with the terms of the relevant Trust Deed, the obligations of the Trustee and the Delegate in respect of the Series shall be satisfied and no Certificateholder may take any further steps against the Trustee and the Delegate to recover any further sums in respect of the relevant Series and the right to receive any such sums unpaid shall be extinguished. In particular, no holder of the Certificates of the relevant Series shall be entitled in respect thereof to petition or to take any other steps for the winding-up of DIB Sukuk Limited.

TAXATION

The following is a general description of certain tax considerations relating to Certificates issued under the Programme. It does not purport to be a complete analysis of all tax considerations relating to the Certificates. Prospective purchasers of any 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 the relevant Certificates and receiving payments under those Certificates. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

United Arab Emirates

The following summary of the anticipated tax treatment in the UAE in relation to payments on the Certificates is based on the taxation law in force at the date of this Base 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 under the Transaction Documents. If any such withholding or deduction is required to be made in respect of payments due by DIB under any Transaction Document to which it is party, DIB has undertaken 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 to pay such additional amounts to the Trustee to enable it 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 the purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain other countries, but these are not extensive in number.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in Certificates to be issued under the Programme. 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 on Certificates to be issued under the Programme will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of Certificates nor will gains derived from the disposal of 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 or gift tax.

Subject as set out below, no capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. An instrument transferring title to any Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. 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 capital. At current rates, this annual registration fee is approximately U.S.$731. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

EU Savings Directive

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

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

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (the **Programme Agreement**) dated 21 May 2012, agreed with the Trustee and DIB a basis upon which they or any of them may from time to time agree to purchase Certificates. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Certificates*". In the Programme Agreement, each of the Trustee and DIB has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue, offer and sale of Certificates under the Programme.

SELLING RESTRICTIONS

United States

The Certificates have not been nor will be registered under the Securities Act nor any state securities law, and the Certificates may not be offered, sold or delivered within the United States or to or for the account or benefit of, any U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Certificates (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Certificates on a syndicated basis, the relevant lead manager, of all Certificates of the Series of which such Certificates are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Certificates during the distribution compliance period a confirmation or other notice setting forth 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of such Certificates within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Republic of Ireland

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not underwrite, offer, place or do anything with respect to the Certificates in or involving the Republic of Ireland:

(a) otherwise than in conformity with the provisions of the European Communities (Markets in Financial Instruments) Regulations 2007, as amended (the **MiFID Regulations**), including, without limitation, Part 6, 7 and 12 thereafter and the provisions of the Investor Compensation Act 1998, and, if acting under and within the terms of an authorisation to do so for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments (**MiFID**) it has complied with any applicable requirements of the MiFID Regulations or as imposed. or deemed to have been imposed, by the Irish Central Bank pursuant to the MiFID Regulations and, if acting within the terms of an authorisation granted to it for the purposes of Directive 2006/48/EC of the European Parliament and the Council of 14 June 2006 relating to the taking up and the pursuit of the business of credit institutions as amended. replaced or consolidated from time to time, it has complied with the provisions of the Central Bank Acts 1942-2004 (as amended) and any codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989 of Ireland (as amended) and any applicable requirements of the MiFID Regulations or as imposed pursuant to the MiFID Regulations;

(b) otherwise than in conformity with the provision of the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland and any rules issued under Section 34 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland by the Irish Central Bank; and

(c) otherwise than in conformity with the provisions of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland and any rules issued under Section 51 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland by the Irish Central Bank, and that no Certificates will be sold with a maturity of less than 12 months except in full compliance with Notice BSD C 01/02 issued by the Irish Central Bank.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Certificates to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Trustee for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Certificates referred to above shall require the Trustee, DIB or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Certificates to the public** in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe for Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Certificates which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of section 19 of the FSMA by the Trustee;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Trustee or DIB; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not made and will not make any offer or invitation to the public in the Cayman Islands to subscribe for any Certificates.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each Dealer appointed under the Programme will be required to represent and agree, that the Certificates to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the **DFSA**); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the **KSA Regulations**). 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 or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates will comply with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer any Certificates to the Public (as defined in Articles 142-146 of the Commercial Companies Law (decree Law No. 21/2001) of Bahrain) in Bahrain.

Qatar (excluding the Qatar Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in the State of Qatar, except (i) in compliance with all applicable laws and regulations of the State of Qatar; and (ii) 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.

Singapore

This Base 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 Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and that it will not offer or sell any Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, nor will it circulate or distribute this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Certificates, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, or (b) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, 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 persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) 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 (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case 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 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.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the **CMSA**); and

(b) accordingly, the Certificates have not been and will not be offered, sold or delivered, 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 or in categories falling within Schedule 6 (or Section 229(1)(b)), Schedule 7 (or Section 230(1)(b)), and 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 Securities Commission of Malaysia 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 Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

General

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers any Certificates or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Trustee, DIB, the Delegate and any other Dealer shall have any responsibility therefor.

None of the Trustee, DIB, the Delegate and any of the Dealers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale. Persons into whose possession this Base Prospectus or any Certificates may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Base Prospectus and the offering and sale of Certificates.

With regard to each Series, the relevant Dealer will be required to comply with any additional restrictions agreed between the Trustee, DIB and the relevant Dealer and set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Certificates have been duly authorised by a resolution of the Board of Directors of the Trustee dated 10 May 2012. The Trustee has obtained all necessary consents, approvals and authorisations in the Cayman Islands in connection with the issue and performance of Certificates to be issued under the Programme and the execution and performance of the Transaction Documents to which it is a party. The entry into of the Transaction Documents to which it is a party has been duly authorised by a resolution of the Board of Directors of DIB dated 29 April 2012.

Listing

The admission of Certificates to the Official List will be expressed as a percentage of their nominal amount (excluding any due but unpaid Periodic Distribution Amounts). It is expected that each Series of Certificates which is to be admitted to the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Certificate initially representing the Certificates of such Series.

This Base Prospectus has been approved by the Irish Central Bank as competent authority under the Prospectus Directive. Such approval relates only to the Certificates which are to be admitted to trading on the Regulated Market or any other MiFID Regulated Markets or which are to be offered to the public in any Member State. The Irish Central Bank only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for Certificates issued under the Programme during the 12 months from the date of this Base Prospectus to be admitted to listing on the Official List and admitted to trading on the Regulated Market. However, Certificates may be issued pursuant to the Programme which will not be listed on the Irish Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Trustee and the relevant Dealer may agree.

Documents Available

For the period of 12 months following the date of this Base Prospectus, physical copies (and English translations where the documents in question are not in English) of the following documents will, when published, be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Trustee and the Paying Agent for the time being in London:

(a) the Transaction Documents including each Supplemental Trust Deed and each Supplemental Purchase Contract in relation to each Series (save that any such documents relating to a Series which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Certificate and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of the relevant Certificates and identity);

(b) the Memorandum and Articles of Association of the Trustee and the constitutional documents (with an English translation thereof) of DIB;

(c) the consolidated audited financial statements of DIB in respect of the two financial years ended 31 December 2010 and 31 December 2011 together with the audit reports prepared in connection therewith. DIB currently prepares audited consolidated accounts on an annual basis. The Trustee is not required to, and does not intend to, publish any annual financial statements;

(d) the most recently published unaudited condensed consolidated interim financial statements (if any) of DIB, together with any audit or review reports prepared in connection therewith. DIB currently prepares unaudited consolidated interim accounts on a quarterly basis. The Trustee is not required to, and does not intend to, publish any interim financial statements;

(e) this Base Prospectus; and

(f) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms (save that a Final Terms relating to a Certificate which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Certificate and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of the relevant Certificates and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records).The appropriate Common Code and ISIN for each Series will be specified in the applicable Final Terms.

If the Certificates are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the financial position or prospects of the Trustee, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of DIB and its subsidiaries, taken as a whole, since 31 March 2012 and there has been no material adverse change in the financial position or prospects of DIB and its subsidiaries, taken as a whole, since 31 December 2011.

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) in the 12 months preceding the date of this document 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 and 17 and 106 and 107 of this Base Prospectus in "*Risk Factors – Factors which may affect DIB's ability to fulfil its obligations under the Transaction Documents to which it is a party – 9/11 Litigation*" and "*Description of Dubai Islamic Bank PJSC – Risk Management – Legal Risk – Legal Proceedings*", neither DIB nor any of its Subsidiaries has been involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or threatened of which DIB is aware) during the 12 months preceding the date of the Base Prospectus that may have or have in such period had a significant effect on the financial position or profitability of DIB and/or its Subsidiaries, respectively.

Auditors

The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

The auditors of DIB are Deloitte, chartered accountants, who have audited DIB's accounts, without qualification, in accordance with IFRS for each of the two financial years ended on 31 December 2010 and 31 December 2011. Deloitte has no material interest in DIB.

Dealers transacting with DIB

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, DIB (and its affiliates) in the ordinary course of business for which they have received, and for which they may in the future receive, fees.

FINANCIAL INFORMATION

Deloitte

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors
Dubai Islamic Bank P.J.S.C.
Dubai
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank") as at 31 March 2012 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. Management of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of 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 interim financial information is not prepared, in all material respects in accordance with IAS 34.

Deloitte & Touche (M.E.)

Saba Y. Sindaha
Registration Number 410
29 April 2012

Condensed consolidated statement of financial position as at 31 March 2012

	Notes	31 March 2012 AED'000 (unaudited)	31 December 2011 AED'000 (audited)
ASSETS			
Cash and balances with Central Banks	4	**14,277,294**	12,952,319
Due from banks and financial institutions	5	**2,182,680**	3,043,096
Islamic financing and investing assets, net	6	**52,532,237**	51,586,088
Investments in Islamic sukuk	7	**13,078,275**	12,560,426
Other investments	8	**2,063,510**	2,034,389
Investments in associates		**2,351,150**	2,336,439
Properties under construction		**105,284**	105,284
Properties held for sale		**520,826**	504,472
Investment properties	9	**1,772,659**	1,785,205
Receivables and other assets		**3,057,179**	3,099,336
Property, plant and equipment		**567,128**	581,410
Total assets		**92,508,222**	90,588,464
LIABILITIES			
Customers' deposits	10	**68,153,080**	64,771,317
Due to banks and financial institutions		**4,599,669**	4,052,433
Sukuk financing instruments	11	**2,537,828**	4,173,983
Medium term wakala finance		**3,752,543**	3,752,543
Payables and other liabilities		**3,523,420**	3,543,355
Accrued zakat		**-**	121,076
Total liabilities		**82,566,540**	80,414,707
EQUITY			
Share capital	12	**3,797,054**	3,797,054
Statutory reserve		**2,731,879**	2,731,879
Donated land reserve		**267,085**	267,085
General reserve		**2,350,000**	2,350,000
Exchange translation reserve		**(124,242)**	(122,218)
Investments fair value reserve		**(804,163)**	(831,849)
Retained earnings		**716,346**	943,484
Equity attributable to equity holders of the Parent		**8,933,959**	9,135,435
Non-controlling interest		**1,007,723**	1,038,322
Total equity		**9,941,682**	10,173,757
Total liabilities and equity		**92,508,222**	90,588,464
Contingent liabilities and commitments	13	**18,959,673**	18,665,850

H.E. Mohammad A Al Shaibani
Chairman

Abdullah Ali Al Hamli
Chief Executive Officer

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

Condensed consolidated statement of income (unaudited) for the period ended 31 March 2012

	Notes	3 months ended 31 March 2012 AED'000	2011 AED'000
INCOME			
Income from Islamic financing and investing assets	14	**806,080**	918,923
Income from investments in Islamic sukuk		**154,736**	105,908
Income from international murabahat and wakala, short term		**14,169**	15,788
Income from other investments		**7,618**	20,607
Commissions, fees and foreign exchange income	15	**191,321**	165,659
Income from investment properties		**20,365**	13,229
Profit on sale of properties		**2,496**	2,638
Other income		**28,315**	41,998
Total income		**1,225,100**	1,284,750
EXPENSES			
Personnel expenses		**(215,878)**	(223,183)
General and administrative expenses		**(135,372)**	(133,417)
Depreciation of investment properties		**(12,722)**	(5,620)
Impairment loss on financial assets, net		**(282,607)**	(289,050)
Impairment loss on non-financial assets, net		**(16,000)**	(511)
Total expenses		**(662,579)**	(651,781)
Profit before depositors' share and tax		**562,521**	632,969
Depositors' share of profits		**(321,906)**	(387,105)
Operating profit for the period		**240,615**	245,864
Share of profit/(loss) of associates		**15,564**	(10,620)
Profit for the period before tax		**256,179**	235,244
Income tax		**(2,859)**	(1,566)
Profit for the period		**253,320**	233,678
Attributable to:			
Equity holders of the parent		**245,049**	221,583
Non-controlling interest		**8,271**	12,095
Profit for the period		**253,320**	233,678
Basic and diluted earning per share attributable to the equity holders of the parent	16	**AED 0.064**	AED 0.058

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

Condensed consolidated statement of comprehensive income (unaudited) for the period ended 31 March 2012

	3 months ended 31 March 2012 AED'000	3 months ended 31 March 2011 AED'000
Profit for the period	**253,320**	233,678
Other comprehensive income/(loss) items		
Fair value gain/(loss) on other investments carried at FVTOCI	**27,686**	(75,873)
Currency translation differences of foreign operations	**(2,024)**	936
Other comprehensive income/(loss) for the period	**25,662**	(74,937)
Total comprehensive income for the period	**278,982**	158,741
Attributable to:		
Equity holders of the parent	**270,711**	146,646
Non-controlling interest	**8,271**	12,095
	278,982	158,741

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

Condensed consolidated statement of changes in equity for the period ended 31 March 2012

	Share capital AED'000	Total reserves AED'000	Investments fair value reserve AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2011 (restated)	3,797,054	5,266,477	(243,166)	10,656	495,058	9,326,079	947,008	10,273,087
Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (note 3)	-	-	(441,973)	-	(36,070)	(478,043)	-	(478,043)
Balance at 1 January 2011 (restated)	3,797,054	5,266,477	(685,139)	10,656	458,988	8,848,036	947,008	9,795,044
Profit for the period	-	-	-	-	221,583	221,583	12,095	233,678
Other comprehensive loss for the period	-	936	(75,873)	-	-	(74,937)	-	(74,937)
Total comprehensive income for the period	-	936	(75,873)	-	221,583	146,646	12,095	158,741
Dividend payable (note 22)	-	-	-	-	(379,705)	(379,705)	-	(379,705)
Non-controlling interest	-	-	-	-	-	-	(16,343)	(16,343)
Balance at 31 March 2011 (unaudited)	3,797,054	5,267,413	(761,012)	10,656	300,866	8,614,977	942,760	9,557,737
Balance at 1 January 2012 (audited)	3,797,054	5,226,746	(831,849)	-	943,484	9,135,435	1,038,322	10,173,757
Profit for the period	-	-	-	-	245,049	245,049	8,271	253,320
Other comprehensive income for the period	-	(2,024)	27,686	-	-	25,662	-	25,662
Total comprehensive income for the period	-	(2,024)	27,686	-	245,049	270,711	8,271	278,982
Dividend paid (note 22)	-	-	-	-	(474,632)	(474,632)	(24,570)	(499,202)
Zakat adjustments	-	-	-	-	2,445	2,445	(14,300)	(11,855)
Balance at 31 March 2012 (unaudited)	**3,797,054**	**5,224,722**	**(804,163)**	**-**	**716,346**	**8,933,959**	**1,007,723**	**9,941,682**

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

Condensed consolidated statement of cash flows (unaudited) for the period ended 31 March 2012

	3 months ended 31 March	
	2012	2011
	AED'000	AED'000
Operating activities		
Profit for the period before tax	256,179	235,244
Adjustments for:		
Dividend income	(4,769)	(16,475)
Revaluation of investments at fair value through profit and loss	(281)	-
Impairment loss on financial assets, net	282,607	289,050
Impairment loss on non-financial assets, net	16,000	511
Share of (profit)/ loss of associates	(15,564)	10,620
Depreciation of investment properties	12,722	5,620
Depreciation of property, plant and equipment	27,377	32,415
Gain on disposal of property, plant and equipment	(32)	(177)
Gain on disposal of properties held for sale	(2,496)	(2,638)
Gain on sale of investments in Islamic sukuk	(952)	(648)
Write off of property, plant and equipment	600	-
Amortisation of sukuk financing instruments issued by a subsidiary	3,476	4,083
Operating cash flow before changes in operating assets and liabilities	574,867	557,605
Decrease / (increase) in deposits and international murabahat with over 3 month maturity	995,980	(5,890,455)
(Increase) / decrease in Islamic financing and investing assets	(1,202,537)	1,313,856
Increase in receivables and other assets	(623,468)	(273,543)
Increase in customers' deposits	3,395,165	9,487,494
Increase in due to banks and other financial institutions	547,758	1,103,646
Increase in payables and other liabilities	635,547	151,863
Decrease in accrued zakat	(121,076)	(146,336)
Cash generated from operations	4,202,236	6,304,130
Tax paid	(550)	(4,849)
Net cash generated from operating activities	4,201,686	6,299,281
Investing activities		
Net movement in investments in Islamic sukuk	(603,104)	(2,452,713)
Net movement in other investments	62	5,403
Additions to properties under construction	-	(7,247)
Additions to properties held for sale	(18,708)	-
Dividend received	699	16,475
Net movement in investments in associates	853	1,080
Purchase of investment properties	(33,049)	(27,365)
Purchase of property, plant and equipment	(14,667)	(9,160)
Proceeds from disposal of property, plant and equipment	140	177
Proceeds from disposal of properties held for sale	4,850	6,148
Net cash used in investing activities	(662,924)	(2,467,202)
Financing activities		
Dividend paid	(499,202)	-
Net movement in sukuk financing instrument	(1,558,654)	-
Non-controlling interests	-	(16,343)
Net cash used in financing activities	(2,057,856)	(16,343)
Increase in cash and cash equivalents	1,480,906	3,815,736
Cash and cash equivalents at the beginning of the period	9,473,570	10,483,681
Effect of exchange rate changes on the balance of cash held in foreign currencies	(18,993)	(32,739)
Cash and cash equivalents at the end of the period (Note 18)	10,935,483	14,266,678
Non-cash transactions:		
Dividend payable	-	379,705

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

Notes to the condensed consolidated financial statements for the period ended 31 March 2012

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.

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

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated financial statements

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

- Amendments to IFRS 7 *Financial Instruments : Disclosure – Transfer of Financial Assets*
- Amendments to IAS 12 *Deferred Tax – Recovery of Underlying Assets*

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 IFSR 7 *Financial Instruments : Disclosure – Enhancing Disclosures about Offseting of Financial Assets and Financial Liabilities*	1 January 2013
• IFRS 10 *Consolidated Financial Statements*	1 January 2013
• IFRS 11 *Joint Arrangements*	1 January 2013
• IFRS 12 *Disclosure of interests in other entities*	1 January 2013
• IFRS 13 *Fair Value Measurement*	1 January 2013
• Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
• IAS 19 (as revised in 2011) *Employee Benefits*	1 January 2013
• IAS 27 (as revised in 2011) *Separate Financial Statements*	1 January 2013
• IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*	1 January 2013
• Amendments to IAS 32 Financial Instruments : Presentation - Offsetting of Financial Assets and Financial Liabilities	1 January 2014
• IFIRC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Management has not yet had an opportunity to consider the potential impact of the adoption of these standards and interpretations.

3 Summary of significant accounting policies

3.1 Basis of preparation

These condensed consolidated financial statements 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.

The condensed consolidated financial statements are presented in U.A.E. Dirhams (AED) since that is the currency in which the majority of the Bank's transactions are denominated.

These condensed consolidated financial statements do not include all the information required in full consolidated financial statements and should be read in conjunction with the Bank's consolidated financial statements for the year ended 31 December 2011. In addition, results for the period from 1 January 2012 to 31 March 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

These condensed consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2011.

The Bank adopted IFRS 9 financial instruments (IFRS 9) in 2011 in advance of its effective date. The standard was applied retrospectively and the Bank had chosen the limited exemption not to restate comparative information in the year of initial application. As a result, the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application were recognized in the opening retained earnings.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to investment securities and investment properties have been disclosed in the condensed consolidated financial statements.

3.2 Estimates

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

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Bank's accounting policies, and the key sources of estimates uncertainty were the same as those were applied to the consolidated financial statements as at and for the year ended 31 December 2011.

3.3 Financial risk management

The Bank'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 2011.

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation

These condensed consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The condensed consolidated financial statements comprise the financial statements of the Bank and of the subsidiaries as disclosed in the annual audited financial statements for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

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

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

The Bank may irrevocably elect at initial recognition to classify investment in Islamic Sukuk that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost. At the reporting date, the Bank has elected not to designate any investments in Islamic Sukuk as FVTPL under the fair value option.

3.6 Other investments

Investments carried at fair value through profit or loss

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

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the condensed consolidated statement of income. The net gain or loss recognised is included in the net investment income in the condensed consolidated statement of income.

Dividend income on investments in equity instruments at FVTPL is recognised in condensed consolidated statement of income when the Bank's right to receive the dividends is established.

3 Summary of significant accounting policies (continued)

3.6 Other investments (continued)

Investments carried at fair value through other comprehensive income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate other investments as at fair value through other comprehensive income (FVTOCI). Designation at FVTOCI is not permitted if the equity investment is held for trading.

Other investments are held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair values. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the cumulative changes in fair value is not reclassified to the condensed consolidated statement of income, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in condensed consolidated statement of income when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investments.

3.6.1 Derecognition of other investments

The Bank derecognises an investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

3.7 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the condensed consolidated statement of income in the period of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

4 Cash and balances with Central Banks

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Cash in hand	**1,263,393**	1,494,417
Balances with the Central Banks:		
- Current accounts	**3,336,825**	773,160
- Reserve requirements	**4,152,585**	4,162,897
- International murabahat with Central Bank - short term	**5,524,491**	6,521,845
	14,277,294	12,952,319

Cash and balances with Central Banks by geography is as follows:

Within the U.A.E.	**14,152,711**	12,822,994
Outside the U.A.E.	**124,583**	129,325
	14,277,294	12,952,319

5 Due from banks and financial institutions

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Current accounts	**492,733**	451,311
Investment deposits	**638,918**	793,828
International murabahat - short term	**1,051,029**	1,797,957
	2,182,680	3,043,096

Due from banks and financial institution by geography is as follows:

Within the U.A.E.	**1,817,430**	2,672,090
Outside the U.A.E.	**365,250**	371,006
	2,182,680	3,043,096

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

6 Islamic financing and investing assets, net

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Islamic financing assets		
Commodities murabahat	4,232,010	4,254,785
International murabahat - long term	1,495,559	1,550,959
Vehicles murabahat	5,745,132	5,841,766
Real estate murabahat	4,428,008	4,580,452
Total Murabahat	15,900,709	16,227,962
Istisna'a	6,032,523	6,170,597
Home finance ijara	12,420,984	12,472,203
Other ijara	9,632,561	8,824,658
Salam	3,531,018	3,139,219
Islamic credit cards	444,899	454,715
	47,962,694	47,289,354
Deferred income	(2,841,238)	(2,983,812)
Contractors and consultants' Istisna'a contracts	(250,288)	(249,840)
Provisions for impairment	(3,713,832)	(3,508,555)
	41,157,336	40,547,147
Islamic investing assets		
Musharakat	6,872,982	6,124,109
Mudaraba	3,266,329	3,592,015
Wakalat	1,699,406	1,745,499
	11,838,717	11,461,623
Provisions for impairment	(463,816)	(422,682)
	11,374,901	11,038,941
Islamic financing and investing assets, net	52,532,237	51,586,088

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

6 Islamic financing and investing assets, net (continued)

Provision for impairment

Movements in the provision for impairment are as follows:

	31 March 2012 (unaudited)			31 December 2011 (audited)		
	Financing AED'000	Investing AED'000	Total AED'000	Financing AED'000	Investing AED'000	Total AED'000
Balance at beginning of the period/year	3,508,555	422,682	3,931,237	2,824,393	132,681	2,957,074
Charge for the period/year	258,623	41,136	299,759	1,113,285	403,902	1,517,187
Release to the statement of income	(52,438)	-	(52,438)	(446,582)	(93,305)	(539,887)
Write-offs during the period/year	(720)	-	(720)	(1,979)	-	(1,979)
Others	(188)	(2)	(190)	19,438	(20,596)	(1,158)
Balance at end of the period/year	3,713,832	463,816	4,177,648	3,508,555	422,682	3,931,237

7 Investments in Islamic sukuk

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Investment in Islamic sukuk measured at amortised cost		
Within U.A.E.	12,462,290	11,946,910
Other G.C.C. Countries	126,948	128,899
Rest of the World	489,037	484,617
Total	13,078,275	12,560,426

8 Other investments

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Investments carried at fair value through profit or loss	53,767	52,987
Investments carried at fair value through other comprehensive income	2,009,743	1,981,402
	2,063,510	2,034,389

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

8 Other investments (continued)

The analysis of the other investments as at 31 March 2012 by geography is as follows:

	31 March 2012 (unaudited)			
	Within U.A.E. AED'000	**Other G.C.C. Countries AED'000**	**Rest of the World AED'000**	**Total AED'000**
Investments carried at fair value through profit or loss				
Quoted equity instruments	5,467	-	48,300	53,767
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	416,350	175,999	38,964	631,313
Unquoted equity instruments	862,748	61,685	83,707	1,008,140
Unquoted investment funds	137,116	5,851	227,323	370,290
	1,416,214	243,535	349,994	2,009,743
Total	1,421,681	243,535	398,294	2,063,510

	31 December 2011 (audited)			
	Within U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Quoted equity instruments	4,305	-	48,682	52,987
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	338,571	161,601	33,602	533,774
Unquoted equity instruments	962,748	61,685	68,387	1,092,820
Unquoted investment funds	122,117	5,851	226,840	354,808
	1,423,436	229,137	328,829	1,981,402
Total	1,427,741	229,137	377,511	2,034,389

9 Investment properties

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Land		
Within U.A.E.	443,722	420,339
Rest of the world	51,733	51,733
	495,455	472,072
Other real estate		
Within U.A.E.	568,036	568,037
Rest of the World	522,625	508,548
	1,090,661	1,076,585
Less: Accumulated depreciation and impairment	(273,389)	(213,718)
	817,272	862,867
Investment property under construction		
Within U.A.E.	459,932	450,266
	1,277,204	1,313,133
	1,772,659	1,785,205

10 Customers' deposits

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Current accounts	17,186,526	17,784,560
Saving accounts	11,146,709	10,848,614
Investment deposits	39,600,752	35,912,221
Margin accounts	185,937	192,765
Depositors' investment risk reserve	33,156	33,157
	68,153,080	64,771,317

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

10 Customers' deposits (continued)

Customers deposits by geography are as follows:

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Within the U.A.E.	**66,114,810**	62,910,730
Outside the U.A.E.	**2,038,270**	1,860,587
	68,153,080	64,771,317

11 Sukuk financing instruments

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Sukuk financing instruments issued by the Bank	-	2,357,075
Sukuk financing instruments issued by a subsidiary	**2,537,828**	1,816,908
	2,537,828	4,173,983

Sukuk financing instruments issued by the Bank matured during March 2012.

12 Share capital

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Authorised capital:		
3,797,054,000 shares of AED 1 each (2011 : 3,797,054,000 shares of AED 1 each)	**3,797,054**	3,797,054
Issued and fully paid up:		
3,797,054,000 shares of AED 1 each (2011: 3,797,054,000 shares of AED 1 each)	**3,797,054**	3,797,054

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

13 Contingent liabilities and commitments

Financing-related financial instruments

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

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

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

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Contingent liabilities:		
Letters of guarantee	**6,998,350**	7,510,949
Letters of credit	**2,160,561**	2,081,825
	9,158,911	9,592,774
Commitments:		
Capital expenditure commitments	**328,631**	316,575
Irrevocable undrawn facilities commitments	**9,472,131**	8,756,501
	9,800,762	9,073,076
Total contingent liabilities and commitments	**18,959,673**	18,665,850

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

14 Income from Islamic financing and investing assets (unaudited)

	3 months ended 31 March	
	2012	2011
	AED'000	AED'000
Islamic Financing assets		
Commodities murabahat	**68,572**	85,199
International murabahat	**1,746**	2,068
Vehicles murabahat	**98,362**	117,793
Real estate murabahat	**47,105**	60,043
Total murabahat income	**215,785**	265,103
Istisna'a	**88,453**	106,281
Home finance ijara	**158,386**	159,428
Ijara	**118,874**	107,981
Salam	**91,844**	48,863
Income from Islamic financing assets	**673,342**	687,656
Islamic investing assets		
Musharakat	**79,178**	154,189
Mudarabat	**36,486**	65,557
Wakalat	**17,074**	8,634
Other	**-**	2,887
Income from Islamic investing assets	**132,738**	231,267
Total income from Islamic financing and investing assets	**806,080**	918,923

15 Commissions, fees and foreign exchange income (unaudited)

	3 months ended 31 March	
	2012	2011
	AED'000	AED'000
Trade related commission and fees	**79,225**	46,901
Other commission and fees	**96,595**	94,145
Gains on unilateral promise to buy/sell currencies	**16,959**	24,339
Fair value changes of Islamic derivatives	**(1,458)**	274
	191,321	165,659

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

16 Basic and diluted earnings per share (unaudited)

Basic and diluted earnings per share are calculated by dividing the profit for the period attributable to the equity holders of the parent by the weighted average number of shares outstanding during the period as follows:

	3 months ended 31 March	
	2012	2011
Profit for the period attributable to the equity holders of the Bank (AED'000)	**245,049**	221,583
Weighted average number of shares in issue throughout the period (000)	**3,797,054**	3,797,054
Basic and diluted earnings per share (AED)	**0.064**	0.058

The figures for basic and diluted earnings per share are the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

17 Related party transactions

The Bank enters into arm's length transactions with Shareholders, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

The significant balances and transactions of related parties included in the condensed consolidated financial statements are as follows:

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
As at 31 March 2012 (unaudited)				
Islamic financing and investing assets	1,469,201	18,966	382,979	1,871,146
Customers' deposits	3,096,726	21,137	39,521	3,157,384
Contingent liabilities	-	6	715	721
For the period ended 31 March 2012 (unaudited)				
Income from financing and investing assets	8,788	297	5,007	14,092
Depositors' share of profits	18,906	75	151	19,132

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

17 Related party transactions (continued)

	Major shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
As at 31 December 2011 (audited)				
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
Contingent liabilities	-	8	700	708
For the period ended 31 March 2011 (unaudited)				
Income from financing and investing assets	13,501	2,496	7,381	23,378
Depositors' share of profits	32,967	191	1,054	34,212

The compensation paid to key management personnel of the Bank is as follows:

	3 months ended 31 March (unaudited)	
	2012 AED'000	2011 AED'000
Salaries and other benefits	**5,098**	4,016
End of service benefits	**2,476**	1,281

18 Cash and cash equivalents

	31 March (unaudited)	
	2012 AED'000	2011 AED'000
Cash and balances with Central Banks	**14,277,294**	18,622,833
Due from banks and financial institutions	**2,182,680**	4,654,375
	16,459,974	23,277,208
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(5,524,491)**	(9,010,530)
	10,935,483	14,266,678

19 Segmental information

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

Reportable segment

The Bank's reporting segments are organised into four major business segments as follows:

i) Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, credit card and funds transfer facilities and trade finance facilities.
ii) 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.
iii) Real estate:	Property development and other real estate investments.
iv) Treasury:	Principally responsible for managing bank's overall liquidity and market risk and provides treasury services to customers. Treasury also run its own Islamic debt and specialise financial instruments book to manage the above risks.
v) Others:	Functions other than above core lines of businesses.

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 financial statements for the period ended 31 March 2012 (continued)

19 Segmental information (continued)

Reportable segments (continued)

The following table presents summarized condensed consolidated income statement related to Bank's reportable segments:

	Retail and business Banking		Wholesale banking		Real estate		Treasury		Other		Total	
	31 March (unaudited)		31 March (unaudited)		31 March (unaudited)		31 March (unaudited)		31 March (unaudited)		31 March (unaudited)	
	2012 AED'000	2011 AED'000	**2012 AED'000**	2011 AED'000	**2012 AED'000**	**2011 AED'000**	**2012 AED'000**	2011 AED'000	**2012 AED'000**	2011 AED'000	**2012 AED'000**	2011 AED'000
Net operating revenue	**461,161**	487,631	**355,327**	386,618	**(133,289)**	(166,682)	**119,417**	99,517	**100,578**	90,561	**903,194**	897,645
Share of profit/(loss) of associates	-	-	**15,564**	7,559	-	(18,179)	-	-	-	-	**15,564**	(10,620)
Operating expenses	**(214,467)**	(221,512)	**(97,176)**	(102,264)	**(18,487)**	(8,735)	**(5,176)**	(5,253)	**(28,666)**	(24,456)	**(363,972)**	(362,220)
Provision for impairment	**(62,550)**	(78,777)	**(234,657)**	(209,321)	-	-		-	**(1,400)**	(1,463)	**(298,607)**	(289,561)
Profit for the period before tax	**184,144**	187,342	**39,058**	82,592	**(151,776)**	(193,596)	**114,241**	94,264	**70,512**	64,642	**256,179**	235,244
Income tax											**(2,859)**	(1,566)
Profit for the period											**253,320**	233,678

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

19 Segmental information (continued)

Reportable segments (continued)

The following is an analysis of the Bank's assets and liabilities by the Bank's reportable segments:

	Retail and business banking		Wholesale Banking		Real estate		Treasury		Other		Total	
	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000
Segment assets	**24,282,184**	23,916,930	**33,531,862**	31,791,056	**3,908,198**	3,874,977	**14,329,956**	13,940,058	**16,456,022**	17,065,443	**92,508,222**	90,588,464
Segment liabilities and equity	**46,792,628**	47,519,470	**25,186,114**	20,893,587	**455,225**	897,844	**8,463,300**	8,716,516	**11,610,955**	12,561,047	**92,508,222**	90,588,464
Capital expenditure	**4,400**	17,441	**4,400**	17,441	**-**	-	**2,933**	11,628	**2,934**	11,628	**14,667**	58,138

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

19 Segmental information (continued)

Geographical information

Although the management of the Bank is based primarily on reportable segments, the Bank operates in two geographic markets: U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international. The following table shows the distribution of the Bank's operating income by geographical segment for the period ended 31 March 2012 and 2011 (unaudited).

	31 March (unaudited)					
	Domestic		International		Total	
	2012	2011	**2012**	2011	**2012**	2011
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Gross income	**1,143,243**	1,186,147	**81,857**	98,603	**1,225,100**	1,284,750

The following table shows the analysis of the Bank's financial and non financial assets, total liabilities and capital expenditures by geographical segment:

	Domestic		International		Total	
	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000	**31 March 2012 (unaudited) AED'000**	31 December 2011 (audited) AED'000
Financial assets	**85,248,760**	83,232,379	**1,942,415**	1,942,150	**87,191,175**	85,174,529
Non-financial assets	**1,332,985**	1,363,564	**3,984,062**	4,050,371	**5,317,047**	5,413,935
Total assets	**86,581,745**	84,595,943	**5,926,477**	5,992,521	**92,508,222**	90,588,464
Total liabilities and equity	**89,774,403**	85,856,351	**2,733,819**	4,732,113	**92,508,222**	90,588,464
Capital expenditure	**13,296**	46,785	**1,371**	11,353	**14,667**	58,138

Notes to the condensed consolidated financial statements for the period ended 31 March 2012 (continued)

20 Capital adequacy as per BASEL II guidelines

	31 March 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
Tier 1 Capital		
Share capital	3,797,054	3,797,054
Statutory reserves	2,731,879	2,731,879
Donated land reserve	267,085	267,085
General reserves	2,350,000	2,350,000
Retained earnings	593,822	563,777
Non-controlling interest	943,171	971,427
	10,683,011	10,681,222
Less:		
Cumulative deferred exchange losses	(107,630)	(105,560)
	10,575,381	10,575,662
Tier 2 Capital		
Investments fair value reserve	(804,163)	(831,849)
Collective impairment	826,908	842,735
Medium term wakala finance	3,752,543	3,752,543
Deductions for associates and others	(615,027)	(602,255)
	3,160,261	3,161,174
Total capital base	13,735,642	13,736,836
Risk weighted assets		
Credit risk	70,574,740	70,353,269
Market risk	1,222,626	1,174,630
Operational risk	3,754,404	3,745,404
Total risk weighted assets	75,551,770	75,273,303
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	18.2%	18.2%
Tier 1 capital to total risk weighted assets after deductions for associates and other	13.6%	13.6%

21 Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated statement of income for the three months period ended 31 March 2012 and 2011.

22 Dividend

At the Annual General Meeting of the shareholders held on 20 March 2012, the shareholders approved a cash dividend of AED 0.125 per outstanding share on 31 December 2011 (31 December 2010: cash dividend of AED 0.10 per outstanding share).

23 Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 29 April 2012.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Dubai Islamic Bank P.J.S.C.
Dubai
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries (the "Bank") as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Deloitte & Touche (M.E.)

Saba Y. Sindaha
Registration Number 410
1 February 2012

Consolidated statement of financial position as at 31 December 2011

	Note	2011 AED'000	2010 AED'000 (Restated)
ASSETS			
Cash and balances with Central Banks	6	**12,952,319**	11,247,225
Due from banks and financial institutions	7	**3,043,096**	2,356,531
Islamic financing and investing assets, net	8	**51,586,088**	57,171,067
Investments in Islamic sukuk	9	**12,560,426**	8,200,476
Other investments	10	**2,034,389**	1,772,946
Investments in associates	11	**2,336,439**	3,176,904
Properties under construction	12	**105,284**	524,165
Properties held for sale	13	**504,472**	544,959
Investment properties	14	**1,785,205**	1,922,911
Receivables and other assets	15	**3,099,336**	2,296,873
Property, plant and equipment	16	**581,410**	653,086
Goodwill	17	**-**	17,258
Total assets		**90,588,464**	89,884,401
LIABILITIES			
Customers' deposits	21	**64,771,317**	63,447,070
Due to banks and financial institutions	22	**4,052,433**	4,409,427
Sukuk financing instruments	23	**4,173,983**	4,176,015
Medium term wakala finance	24	**3,752,543**	3,752,543
Payables and other liabilities	25	**3,543,355**	3,679,923
Accrued zakat	28	**121,076**	146,336
Total liabilities		**80,414,707**	79,611,314
EQUITY			
Share capital	29	**3,797,054**	3,797,054
Statutory reserve	30	**2,731,879**	2,731,879
Donated land reserve	30	**267,085**	276,139
General reserve	30	**2,350,000**	2,350,000
Exchange translation reserve	30	**(122,218)**	(91,541)
Investments fair value reserve	31	**(831,849)**	(243,166)
Hedging reserve	33	**-**	10,656
Retained earnings		**943,484**	495,058
Equity attributable to equity holders of the Parent		**9,135,435**	9,326,079
Non-controlling interests	35	**1,038,322**	947,008
Total equity		**10,173,757**	10,273,087
Total liabilities and equity		**90,588,464**	89,884,401
Contingent liabilities and commitments	36	**18,665,850**	24,266,184

H. E. Mohammad A.Al Shaibani	**Dr. Tarek Humaid Al Tayer**	**Abdulla Ali Al Hamli**
Chairman	Vice Chairman	Chief Executive Officer

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

Consolidated income statement
for the year ended 31 December 2011

	Notes	2011 AED'000	2010 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	38	**3,448,506**	3,221,695
Income from Islamic sukuk		**517,332**	376,260
Income from International murabahats and wakala, short term	39	**83,133**	36,313
Gain from other investments	40	**39,036**	136,163
Commissions, fees and foreign exchange income	41	**700,587**	687,030
Income from investment properties	42	**70,042**	90,166
Income from sale of properties held for sale	43	**15,390**	14,498
Other income	44	**130,837**	140,006
Gain on buy back of sukuk financing instrument	23	**-**	6,418
Total income		**5,004,863**	4,708,549
EXPENSES			
Personnel expenses	45	**(908,883)**	(817,819)
General and administrative expenses	46	**(563,409)**	(542,943)
Depreciation of investment properties	14	**(24,205)**	(22,669)
Impairment loss on financial assets, net	47	**(994,964)**	(801,055)
Impairment loss on non-financial assets, net	48	**(91,948)**	(62,824)
Total expenses		**(2,583,409)**	(2,247,310)
Profit before depositors' share and tax		**2,421,454**	2,461,239
Depositors' share of profits	49	**(1,386,808)**	(1,435,631)
Operating profit for the year		**1,034,646**	1,025,608
Share of profit/(loss) from associates	11	**28,551**	(1,099,891)
Gain on acquiring controlling interest	20	**-**	637,038
Profit for the year before tax		**1,063,197**	562,755
Income tax expense	26	**(6,782)**	(3,492)
Profit for the year		**1,056,415**	559,263
Attributable to:			
Equity holders of the parent		**1,010,141**	553,153
Non-controlling interests		**46,274**	6,110
Profit for the year		**1,056,415**	559,263
Basic and diluted earning per share attributable to the equity holders of the parent (AED)	50	**AED 0.26**	AED 0.15

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

Consolidated statement of comprehensive income for the year ended 31 December 2011

	2011 AED'000	2010 AED'000 (Restated)
Profit for the year	**1,056,415**	559,263
Other comprehensive (loss)/income		
Net gain on available for sale investments during the year	-	606,140
Reclassification of realised gain on disposal of available for sale of investments to profit or loss	-	(125,593)
Currency translation differences of foreign operations	**(30,677)**	(13,700)
Reclassification of cash flow hedging reserve to profit or loss	**(10,656)**	(39,944)
Fair value loss on other investments carried at FVTOCI	**(146,724)**	-
Directors' remuneration	**(5,350)**	(4,800)
Total other comprehensive (loss)/income for the year	**(193,407)**	422,103
Total comprehensive income for the year	**863,008**	981,366
Attributable to:		
Equity holders of the parent	**816,734**	975,256
Non-controlling interests	**46,274**	6,110
	863,008	981,366

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

Consolidated statement of changes in equity for the year ended 31 December 2011

	Share capital	Treasury shares	Total reserves	Investments fair value reserve	Hedging reserve	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total Equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2010	3,617,505	(70,901)	5,280,177	(723,713)	50,600	822,222	8,975,890	4,910	8,980,800
Profit for the year - before restatement	-	-	-	-	-	806,523	806,523	6,110	812,633
Restatement:									
Effect of prior year adjustment relating to share of loss of an associate (note 59)	-	-	-	-	-	(253,370)	(253,370)	-	(253,370)
Profit for the year - restated	-	-	-	-	-	553,153	553,153	6,110	559,263
Other comprehensive income for the year	-	-	(13,700)	480,547	(39,944)	(4,800)	422,103	-	422,103
Total comprehensive income for the year - restated	-	-	(13,700)	480,547	(39,944)	548,353	975,256	6,110	981,366
Additional non-controlling interest arising on acquisition of a subsidiary	-	-	-	-	-	-	-	940,300	940,300
Issuance of bonus shares	179,549	-	-	-	-	(179,549)	-	-	-
Dividends paid	-	-	-	-	-	(538,648)	(538,648)	(4,312)	(542,960)
Treasury shares disposed	-	70,901	-	-	-	(11,473)	59,428	-	59,428
Share based payments vested	-	-	-	-	-	479	479	-	479
Accrued zakat (note 28)	-	-	-	-	-	(146,326)	(146,326)	-	(146,326)
Balance at 1 January 2011 - restated	3,797,054	-	5,266,477	(243,166)	10,656	495,058	9,326,079	947,008	10,273,087

Consolidated statement of changes in equity for the year ended 31 December 2011 (continued)

	Share capital AED'000	Treasury shares AED'000	Total reserves AED'000	Investments fair value reserve AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total Equity AED'000
Balance at 1 January 2011 - restated	3,797,054	-	5,266,477	(243,166)	10,656	495,058	9,326,079	947,008	10,273,087
Effect of the change in accounting policy for classification and measurement of financial assets – IFRS 9 (note 2)	-	-	-	(441,973)	-	(36,070)	(478,043)	-	(478,043)
Balance at 1 January 2011 – restated	3,797,054	-	5,266,477	(685,139)	10,656	458,988	8,848,036	947,008	9,795,044
Profit for the year	-	-	-	-	-	1,010,141	1,010,141	46,274	1,056,415
Net realized loss on disposal of investments carried at FVTOCI	-	-	-	14	-	(14)	-	-	-
Other comprehensive loss for the year	-	-	(30,677)	(146,724)	(10,656)	(5,350)	(193,407)	-	(193,407)
Total comprehensive income for the year	-	-	(30,677)	(146,710)	(10,656)	1,004,777	816,734	46,274	863,008
Additions in the non-controlling interest	-	-	-	-	-	-	-	61,383	61,383
Disposal of Donated Land Reserve	-	-	(9,054)	-	-	-	(9,054)	-	(9,054)
Dividends paid	-	-	-	-	-	(379,705)	(379,705)	(2,952)	(382,657)
Accrued zakat (note 28)	-	-	-	-	-	(140,576)	(140,576)	(13,391)	(153,967)
Balance at 31 December 2011	**3,797,054**	-	**5,226,746**	**(831,849)**	-	**943,484**	**9,135,435**	**1,038,322**	**10,173,757**

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

Consolidated statement of cash flows for the year ended 31 December 2011

	2011 AED'000	2010 AED'000 (Restated)
Cash flows from operating activities		
Profit for the year before tax	**1,063,197**	562,755
Adjustments for:		
Net impairment loss on financial assets	**994,964**	801,055
Net impairment loss on non-financial assets	**91,948**	62,824
Depreciation of investment properties	**24,205**	22,669
Depreciation of property, plant and equipment	**120,313**	122,855
Dividend income	**(35,679)**	(24,303)
Share of (profit)/ loss from associates	**(28,551)**	1,099,891
Gain on disposal of properties held for sale	**(15,390)**	(14,498)
Amortisation of sukuk instruments issued by a subsidiary	**16,333**	-
Write off of property, plant and equipment	**717**	4,099
Amortisation of hedging reserve	**(10,656)**	(39,943)
Revaluation of investments at fair value through profit or loss	**541**	13,182
Gain on disposal of property, plant and equipment	**(245)**	(20)
(Gain)/loss on disposal of investments at fair value through profit or loss	**(3,186)**	1,941
Gain on acquiring controlling interest	**-**	(637,038)
Gain on disposal of available for sale investments	**-**	(125,593)
Gain on sale of investment properties	**-**	(18,001)
Cost of shared based payments	**-**	479
Gain on buy back of sukuk financial instruments	**-**	(6,418)
Operating cash flow before changes in operating assets and liabilities	**2,218,511**	1,825,936
Movement in deposits and International murabahas with original maturities above three months	**(3,401,770)**	(3,031,239)
Decrease in Islamic financing and investing assets	**4,608,837**	1,677,043
Increase in receivables and other assets	**(120,934)**	(733,760)
Increase/(decrease) in customers' deposits	**1,325,707**	(2,227,113)
Decrease in due to banks and financial institutions	**(356,994)**	(923,002)
Decrease in payables and other liabilities	**(75,155)**	(4,488)
Accrued zakat paid	**(180,711)**	(140,536)
Cash generated from / (used in) operating activities	**4,017,491**	(3,557,159)
Tax paid	**(6,017)**	(1,414)
Net cash generated from/(used in) operating activities	**4,011,474**	(3,558,573)

Consolidated statement of cash flows
for the year ended 31 December 2011 (continued)

	2011 AED'000	2010 AED'000 (Restated)
Cash flows from investing activities		
Purchase of investments in Islamic sukuk	**(4,669,048)**	-
Proceeds from disposal of investments in Islamic sukuk	**286,201**	864,585
Proceeds from disposal of investments at FVTPL	**18,580**	4,511
Purchase of investments carried at FVTOCI	**(58,066)**	-
Purchase of available for sale investments	**-**	(42,343)
Proceeds from disposal of available for sale investments	**-**	16,166
Dividend income	**46,336**	24,302
Investments in associates	**-**	6,136
Additions to properties under construction	**(31,385)**	(135,517)
Additions to properties held for sale	**(18,112)**	(29,747)
Proceeds from disposal of properties held for sale	**30,686**	31,067
Proceeds from disposal of investment properties	**2,658**	22,204
Additions to investment properties	**(264,886)**	(8,757)
Purchase of property, plant and equipment	**(58,138)**	(93,303)
Proceeds from disposal of property, plant and equipment	**964**	1,402
Net cash outflow on acquisition of controlling interest	**-**	(81,851)
Net cash (used in)/from investing activities	**(4,714,210)**	578,855
Cash flow from financing activities		
Dividends paid	**(382,657)**	(538,648)
Buy back of sukuk financing instruments	**-**	(51,542)
Non-controlling interests	**61,383**	(2,841)
Net cash used in financing activities	**(321,274)**	(593,031)
Decrease in cash and cash equivalents	**(1,024,010)**	(3,572,749)
Cash and cash equivalents at the beginning of the year	**10,483,681**	14,079,992
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**13,899**	(23,562)
Cash and cash equivalents at the end of the year (Note 51)	**9,473,570**	10,483,681

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

Notes to the consolidated financial statements for the year ended 31 December 2011

1 General information

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

The Bank operates in the U.A.E. through its 71 branches (2010: 68 branches) in across the U.A.E. The accompanying consolidated financial statements combine the activities of the Bank's head office, its branches and subsidiaries.

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

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

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years)

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these consolidated financial statements. Details of other new and revised IFRSs adopted in these consolidated financial statements that have had no material effect on the financial statements are set out in section 2.2.

• Amendments to IAS 1 *Presentation of Financial Statements* (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Bank has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.
• Amendments to IFRS 7 *Financial Statements : Disclosures*	These amendments require disclosures about the initial application of IFRS 9. These amendments have been adopted in advance of its effective date because the Bank has also adopted IFRS 9 in advance of its effective date.
• IFRS 9 *Financial instruments*	IFRS 9 prescribes the classification and measurement of financial assets and completes the first phase of the project to replace IAS 39 Financial instruments: Recognition and Measurement. The impact on the consolidated financial statements is described below.

IFRS 9 Financial Instruments: Recognition and Measurement

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) in advance of its effective date. The Bank has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets). The Standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

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

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years) (continued)

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

The financing instruments (i.e. Islamic Sukuks) are measured at amortized cost only if:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as fair value through profit or loss ("FVTPL"). Additionally, even if the asset meets the amoritsed cost criteria, the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Bank has elected not to designate any financing instruments (i.e. Islamic Sukuks) as FVTPL under the fair value option.

Only financial assets that are classified as measured at amortized cost are tested for impairment.

All Islamic derivatives are classified as at FVTPL, except if designated in an effective cash flow hedge or hedge of a foreign operation hedge accounting relationship. In accordance with IFRS 9, embedded derivatives within the scope of that Standard are not separately accounted for as financial assets.

Investments in equity instruments not held for trading are designated by the bank as at fair value through other comprehensive income ("FVTOCI") as the equity investments are not held for trading. If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income are recognised in other comprehensive income and are not subsequently reclassified to statement of income.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Bank's investments in financing instruments meeting the required criteria are measured at amortized cost; and
- the Bank's equity investments that are not held for trading have been designated as at FVTOCI.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures was applied.

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

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years) (continued)

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

The impact of this change in accounting policy at the beginning of the current year (as at 1 January 2011) is as follows:

	Investments fair value reserve AED'000	Retained earnings AED'000
Investment in AFS Islamic Sukuks		
▪ Reversal of related revaluation reserve	(4,784)	-
▪ Impact of funded income at effective profit rate in previous periods	-	252
Other equity investments		
▪ FVTPL equity investments – cumulative fair value impacts earlier accounted in consolidated statement of income in earlier years	(14,658)	14,658
▪ Quoted AFS investments – cumulative impairment losses accounted in consolidated income statement in earlier years	(422,531)	422,531
▪ Unquoted equity investments – re-measured at FVTOCI	-	(473,511)
	(441,973)	(36,070)

Had IFRS 9, not been adopted during the current year, the consolidated income statement would have been impacted by a decrease in net profit by AED 34.19 million resulting from fair value changes in FVTPL investments.

Additional disclosures required, reflecting the revised classification and measurement of financial assets of the Bank as a result of adopting IFRS 9, are shown in Notes 9, 10, 31 and 56 to these consolidated financial statements.

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

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

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

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

- Amendments to IFRS 3 *Business Combination*

As part of *Improvements to IFRSs* issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure').

The application of the amendments has had no effect on the amounts reported in the current year because the Bank has not acquired any new entity in the current year.

- IAS 24 *Related Party Disclosures* (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not identified any entity, which could have been considered as related party.

- IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2010)

These amendments relate to clarification of disclosure requirements.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

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

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

• Amendments to IAS 32 *Classifications of Rights Issues*.	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not issued instruments of this nature.
• Amendments to IFRIC 13 *Customer Loyalty Programmes*	These amendments relate to fair value of award credits.
• Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Bank's consolidated financial statements.
• IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Bank has not entered into any transactions of this nature.

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

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

• *Improvements to IFRSs* issued in 2010	Except for the amendments to IFRS 9 and IAS 1 described earlier in section 2.1, the application of *Improvements to IFRSs* issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

2.3 New and revised IFRSs is in issue but not yet effective

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

<u>New and revised IFRSs</u>	**Effective for annual periods <u>beginning on or after</u>**
• Amendments to IFRS 7 *Financial Instruments : Disclosure – Transfer of Financial Assets*	1 July 2011
• Amendments to IFRS 7 *Financial Instruments : Disclosure – Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities*	1 January 2013
• IFRS 10 *Consolidated Financial Statements*	1 January 2013
• IFRS 11 *Joint Arrangements*	1 January 2013
• IFRS 12 *Disclosure of interests in other entities*	1 January 2013
• IFRS 13 *Fair Value Measurement*	1 January 2013
• Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
• Amendments to IAS 12 *Deferred Tax – Recovery of Underlying Assets*	1 January 2012
• IAS 19 (as revised in 2011) *Employee Benefits*	1 January 2013
• IAS 27 (as revised in 2011) *Separate Financial Statements*	1 January 2013
• IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*	1 January 2013
• Amendments to IAS 32 *Financial Instruments : Presentation – Offsetting of Financial Assets and Financial Liabilities*	1 January 2014
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013

Management has not yet had an opportunity to consider the potential impact of the adoption of these standards and interpretations.

3 Definitions

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

3.1 Murabahat

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

3.2 Salam finance

An agreement whereby the Bank purchases specified commodity and pays full price of a commodity in advance, whereas the customer delivers the goods with certain specifications and certain quantity on the agreed future date(s). i.e. purchase of commodity for deferred delivery by the customer in exchange for upfront payment of the full purchase price by the purchaser (the Bank).

3.3 Istisna'a

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

3.4 Ijarah

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

3.5 Musharaka

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

3.6 Mudaraba

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

3.7 Wakala

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

3.8 Sukuk

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

4 Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No.2624/2008 dated 12 October 2008, the Bank's exposure in Cash and balances with Central Banks, Balances and deposits with banks and other financial institutions, International murabahat with financial institutions, short term and other investments outside the U.A.E. have been presented under the respective explanatory notes to the consolidated financial statements.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank") as set out in Note 19. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Bank.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Bank's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.3 Basis of consolidation (continued)

When the Bank loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

4.4 Due from banks and financial institutions

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

International murabahat with financial institutions, short term are stated at cost less provisions for impairment and deferred profits.

4.5 Islamic financing and investing assets

Islamic financing and investing assets consist of murabahat receivables, salam finacing, mudaraba, musharaka, wakala arrangements, istisna'a and ijarah contracts and they are measured at amortised cost less any amounts written off and provision for impairment losses. Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Provision for impairment is made for Islamic financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Islamic financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Losses expected from future events are not recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

4.6 Islamic financing and investing assets impairment

4.6.1 Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

a) Principal and profit are not serviced as per contractual terms; and
b) When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

4 Significant accounting policies (continued)

4.6 Islamic financing and investing assets impairment (continued)

4.6.1 Individually assessed Islamic financing and investing assets (continued)

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows discounted at the Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing assets' observable market price or fair value of the collaterals if the Islamic financing and investing assets is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing assets' carrying value and its present impaired value.

4.6.2 Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

4.6.3 Incurred but not yet identified

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or Islamic financing and investing assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the consolidated financial position date, which the Bank is not able to identify on an individual basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual Islamic financing and investing assets within the group of the customer, those Islamic financing and investing assets are removed from the group of the customer and assessed on an individual basis for impairment.

4.6.4 Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the investing and financing asset impairment provision account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

4.6.5 Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continue to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the Islamic financing and investing assets to be moved to performing category.

4 Significant accounting policies (continued)

4.7 Investment in Islamic Sukuk

4.7.1 Investments in Islamic Sukuk - Per IFRS 9

Investments in Islamic Sukuk are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Investments in Islamic Sukuk meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective yield method less any impairment, with profit recognised on an effective yield basis in income from investments in Islamic Sukuk in the consolidated income statement.

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

The Bank may irrevocably elect at initial recognition to classify investment in Islamic Sukuk that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost. At the reporting date, the Bank has elected not to designate any investments in Islamic Sukuk as FVTPL under the fair value option.

Impairment of Islamic Sukuk

Islamic Sukuks measured at amortised cost are assessed for impairment at the end of each reporting period. Islamic Sukuks are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the Islamic Sukuks, the estimated future cash flows of the asset have been affected.

4.7.2 Investments in Islamic Sukuk - Per IAS 39 - For comparatives only

Held to maturity

Investments in Islamic Sukuk which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments in Islamic Sukuk are carried at amortised cost, using effective profit rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective profit rate method.

If there is objective evidence that an impairment on held to maturity investments in Islamic Sukuk carried at amortised cost has been incurred, the amount of impairment loss recognised is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective profit rate, with the resulting impairment loss, if any, in the consolidated income statement.

4 Significant accounting policies (continued)

4.7.2 Investments in Islamic Sukuk - Per IAS 39 - For comparatives only (continued)

Available for sale investments

Investments in Islamic Sukuk not classified as "held to maturity" are classified as "available for sale" and are stated at fair value.

Available for sale investments in Islamic Sukuk are initially recognised at fair value plus any directly attributable transaction cost and are subsequently measured at fair value.

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and recorded in the cumulative changes in fair value with the exception of impairment losses, profit calculated using the effective yield method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is reclassified to consolidated income statement.

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

4.8 Other investments

4.8.1 Other investments classification- Per IFRS 9

Investments carried at fair value through profit or loss

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

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised is included in the net investment income in the consolidated income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in consolidated statement of income when the Bank's right to receive the dividends is established.

Investments carried at fair value through other comprehensive income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate other investments as at fair value through other comprehensive income (FVTOCI). Designation at FVTOCI is not permitted if the equity investment is held for trading.

Other investments are held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

4 Significant accounting policies (continued)

4.8 Other investments (continued)

4.8.1 Other investments classification- Per IFRS 9 (continued)

Investments carried at fair value through other comprehensive income (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair values. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the cumulative changes in fair value is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investments.

4.8.2 Other investments classification - Per IAS 39 - For comparatives only

Investments carried at fair value through profit or loss

Financial assets are classified at fair value through profit or loss ("FVTPL") where the financial assets is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short- term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss arising on re-measurement in the consolidated income statement.

Available for sale investments

Investments not classified as "FVTPL" are classified as "available for sale" and are stated at fair value.

If available for sale investment is impaired, the difference between the acquisition cost and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available for sale financial asset, subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity.

Reclassification of other investments

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

4 Significant accounting policies (continued)

4.8 Other investments (continued)

4.8.3 Derecognition of other investments

The Bank derecognises an investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

4.9 Fair values

4.9.1 Fair values - Financial instruments

For quoted investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business at the end of reporting period. Bid prices are used for assets and offer prices are used for liabilities. In accordance with IAS 39, unquoted instruments were stated at cost as at 31 December 2010.

For unquoted investments not actively traded in organised financial markets fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market.

The fair value of unilateral promise to buy/sell currencies is calculated by reference to foreign exchange rates with similar maturities.

4.9.2 Fair values – non financial assets

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

4.10 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies, by having active representation at the Board of Directors or Management Committees who has power to participate in the financial and operating policy of the company. Significant influence is assessed on an ongoing basis.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. After the application of the equity method, the Bank determines whether it is necessary to recognise any impairment loss on the Bank's investment in its associates. The Bank determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the consolidated income statement.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in consolidated income statement.

4 Significant accounting policies (continued)

4.10 Investments in associates (continued)

Where a Bank transacts with an associate, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

4.11 Fund management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity.

4.12 Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are recognised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are recognised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, cost in respect to unsold properties is eliminated from properties under construction and transferred to properties held for sale.

4.13 Properties held for sale

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

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

4.14 Cost of sale of property

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

4.15 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

4 Significant accounting policies (continued)

4.15 Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

4.16 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

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

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

4.17 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with the Bank's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Bank's policies.

4 Significant accounting policies (continued)

4.18 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.19 Investments in joint ventures

The Bank's interests in joint ventures, which are defined as a contractual arrangement whereby the Bank and other parties undertake an economic activity that is subject to joint control, are accounted for under the proportionate consolidation method whereby the Bank accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

The reporting dates of the joint venture and the Bank are identical and the joint venture's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

4.20 Business combination

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

4 Significant accounting policies (continued)

4.20 Business combination (continued)

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal Banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

4 Significant accounting policies (continued)

4.20 Business combination (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4.21 Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.22 Customers' deposits, due to banks and financial institutions and Medium term wakala finance

Customers' deposits, due to banks and financial institutions and Medium term wakala finance are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

4.23 Sukuk financing instruments

4.23.1 Non-convertible sukuk

Sukuk financing instruments are initially measured at fair value, net of transaction costs, and then are subsequently measured at amortised cost using the effective profit rate method, with profit expense recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4 Significant accounting policies (continued)

4.23 Sukuk financing instruments (continued)

4.23.2 Convertible sukuk

Convertible Sukuk that can be settled at the option of the issuer are recorded as compound financial instruments. The equity component of the convertible sukuk is calculated as the excess of the issue proceeds over the present value of the future profit and principal payments, discounted at the market rate of profit applicable to similar liabilities that do not have a conversion option.

4.24 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective profit method, with depositors' share of profit recognised on an effective yield basis.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating depositors' share of profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

4.25 Derecognition of financial assets and financial liabilities

4.25.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised on when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4.25.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same financial institution on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated income statement.

4.26 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 2 of 2000.

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

4 Significant accounting policies (continued)

4.27 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective countries in which the Bank operates.

4.27.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

4.27.2 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4.28 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:

- Zakat on Shareholders' equity is deducted from their dividends and is computed on their zakat pool (shareholders' equity less paid up capital, donated land reserve, exchange translation reserve, hedging reserve and cumulative changes in fair value) plus employees' end of service benefits;
- Zakat paid by investee companies directly are adjusted in shareholders zakat, if the bank only accounts net profit after zakat of investee;
- Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves;
- Zakat on depositors' investment risk reserve is charged to this provision after it has been calculated; and
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.

4 Significant accounting policies (continued)

4.29 Allocation of profit

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

4.30 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

4.31 Share capital - equity instruments

Financing and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity instrument if, and only if, below both conditions are met:

(a) The instrument includes no contractual obligation:
   (i) to deliver cash or another financial asset to another entity; or
   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:
   (i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
   (ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

4 Significant accounting policies (continued)

4.32 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated financial position date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4.33 Financial guarantees

Financial guarantees are undertaking/commitment that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

4.34 Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.35 Islamic derivative financial instruments

An Islamic derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic swap.

Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether Islamic derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of Islamic derivatives held for trading are recognised in consolidated income statement.

4 Significant accounting policies (continued)

4.35 Derivative financial instruments (continued)

When Islamic derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to Islamic derivatives designated as hedging instruments in a fair value, cash flow or net investment hedges provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in 'Net profit income'.

4.35.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

4.35.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

4 Significant accounting policies (continued)

4.35.3 Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

4.36 Unilateral promise to buy/sell currencies (the Promise)

The promises are stated at fair value. The fair value of a promise is the equivalent of the unrealised gain or loss from marking to market the promise using prevailing market rates. The promise with positive market value (unrealised gain) are included in other assets and the promise with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

4.37 Revenue recognition

4.37.1 Income from investing and financing assets

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit rate method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective profit rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

4.37.2 Murabahat

Murabahat income is recognised on an effective profit rate basis over the period of the contract based on the principal amounts outstanding.

4.37.3 Salam finance

Salam income is recognised on effective profit rate basis over the period of contract based on salam capital outstanding.

4.37.4 Istisna'a

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

4.37.5 Ijarah

Ijarah income is recognised on an effective profit rate basis over the Ijarah term.

4 Significant accounting policies (continued)

4.37.6 Musharaka

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

4.37.7 Mudaraba

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

4.37.8 Wakala

Wakala income is recognised on an effective profit rate basis over the Wakala term.

4.37.9 Sukuk

Income is accounted for on a time-apportioned basis over the term of the Sukuk.

4.37.10 Fee and commission income

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

4.37.11 Dividends

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

4.37.12 Sale of property

Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Bank has transferred to the buyer the significant risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

4.38 Forfeited income

According to the Fatwa and Sharia'a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities.

4.39 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

4 Significant accounting policies (continued)

4.40 Operating lease

4.40.1 The Bank as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4.40.2 The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4.41 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4.42 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the end of reporting period. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the consolidated income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the consolidated financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange translation reserve'.

4 Significant accounting policies (continued)

4.42 Foreign currencies (continued)

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.43 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated financial position date is recognised in the consolidated income statement for assets classified as held for trading and in other comprehensive income for assets classified as available for sale.

4.44 Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

4.45 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 54 on Business Segment reporting.

5 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 4, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of Islamic derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of Islamic derivative financial instruments are summarised as follows:

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

5.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful Islamic financing and investing assets.

5.1.1 Individually assessed Islamic financing and investing assets

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals;
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

5.1.2 Collectively assessed Islamic financing and investing assets

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of Islamic financing and investing assets which may be impaired but not identified as of the consolidated financial position date.

5.2 Classification of investments

5.2.1 Classification of investments - per IFRS 9

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Bank's investment in securities are appropriately classified and measured.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

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

5.2 Classification of investments (continued)

5.2.2 Classification of investments - per IAS 39

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available, reliable fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

5.3 Impairment of available for sale investments - per IAS 39

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

5.4 Impairment of associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

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

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5.5 Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

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

5.5 Islamic derivative financial instruments (continued)

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

6 Cash and balances with Central Banks

	2011 AED'000	2010 AED'000 (Restated)
Cash in hand	**1,494,417**	1,374,754
Balances with Central Banks:		
- Current accounts	**773,160**	2,664,847
- Reserve requirements	**4,162,897**	3,905,838
- International murabahat with Central Bank – short term	**6,521,845**	3,301,786
	12,952,319	11,247,225

The reserve requirements are kept with the Central Banks of U.A.E. and Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective Central Banks. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives.

Cash and balances with Central Banks by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within the U.A.E.	**12,822,994**	11,114,569
Outside the U.A.E.	**129,325**	132,656
	12,952,319	11,247,225

7 Due from banks and financial institutions

	2011 AED'000	2010 AED'000 (Restated)
Current accounts	**451,311**	336,541
Investment deposits	**793,828**	751,880
International murabahat - short term	**1,797,957**	1,268,110
	3,043,096	2,356,531

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

7 Due from banks and financial institutions (continued)

Balances and deposits with banks and financial institutions by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within the U.A.E.	**2,672,090**	2,019,539
Outside the U.A.E.	**371,006**	336,992
	3,043,096	2,356,531

8 Islamic financing and investing assets, net

	2011 AED'000	2010 AED'000 (Restated)
Islamic financing Assets		
Commodities murabahat	**4,254,785**	5,495,201
International murabahat - long term	**1,550,959**	1,661,426
Vehicles murabahat	**5,841,766**	6,546,265
Real estate murabahat	**4,580,452**	5,187,596
Total murabahat	**16,227,962**	18,890,488
Istisna'a	**6,170,597**	7,289,783
Home finance ijara	**12,472,203**	12,225,198
Other ijaras	**8,824,658**	10,032,307
Salam	**3,139,219**	1,399,132
Islamic credit cards	**454,715**	431,953
	47,289,354	50,268,861
Deferred income	**(2,983,812)**	(3,834,249)
Contractors and consultants' Istisna'a contracts	**(249,840)**	(524,002)
Provisions for impairment	**(3,508,555)**	(2,824,393)
	40,547,147	43,086,217
Islamic investing Assets		
Musharakat	**6,124,109**	9,717,533
Mudaraba	**3,592,015**	3,709,791
Wakalat	**1,745,499**	790,207
	11,461,623	14,217,531
Provision for impairment	**(422,682)**	(132,681)
	11,038,941	14,084,850
Islamic financing and investing assets, net	**51,586,088**	57,171,067

8 Islamic financing and investing assets, net (continued)

Islamic financing and investing assets by industry group and geography are as follows:

	2011		
	U.A.E. AED'000	International AED'000	Total AED'000
Economic sector			
Financial institutions	2,921,895	371,986	3,293,881
Real estate	17,155,690	3,423	17,159,113
Trade	2,040,852	89,587	2,130,439
Government	2,563,280	-	2,563,280
Manufacturing and services	6,497,835	1,106,727	7,604,562
Consumer home finance	12,482,448	245,577	12,728,025
Consumer financing	9,826,692	211,333	10,038,025
Total	53,488,692	2,028,633	55,517,325
Provision for impairment			(3,931,237)
Total			51,586,088

	2010 (Restated)		
	U.A.E. AED'000	International AED'000	Total AED'000
Economic sector			
Financial institutions	3,014,911	413,706	3,428,617
Real estate	17,478,834	434	17,479,268
Trade	2,755,050	65,971	2,821,021
Government	4,843,577	17,156	4,860,733
Manufacturing and services	8,242,261	1,141,821	9,384,082
Consumer home finance	12,578,399	-	12,578,399
Consumer financing	9,090,735	485,286	9,576,021
Total	58,003,767	2,124,374	60,128,141
Provision for impairment			(2,957,074)
Total			57,171,067

Provisions for impairment

Movements in the provision for impairment are as follows:

	2011		
	Financing AED'000	Investing AED'000	Total AED'000
Balance at the beginning of the year	2,824,393	132,681	2,957,074
Charge for the year	1,113,285	403,902	1,517,187
Release to the profit or loss	(446,582)	(93,305)	(539,887)
Write-offs during the year	(1,979)	-	(1,979)
Other	19,438	(20,596)	(1,158)
Balance at the end of the year	3,508,555	422,682	3,931,237
Gross amount of Islamic financing and investing assets, individually determined to be impaired	5,671,417	2,385,199	8,056,616

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

8 Islamic financing and investing assets, net (continued)

Provisions for impairment (continued)

	2010 (Restated)		
	Financing AED'000	Investing AED'000	Total AED'000
Balance at the beginning of the year	1,845,257	103,045	1,948,302
Acquisition of controlling interest	364,073	-	364,073
Charge for the year	834,493	94,470	928,963
Release to the profit or loss	(217,206)	(58,321)	(275,527)
Write-offs during the year	(2,135)	(6,260)	(8,395)
Other	(89)	(253)	(342)
Balance at the end of the year	2,824,393	132,681	2,957,074
Gross amount of Islamic financing and investing assets, individually determined to be impaired	4,667,226	344,996	5,012,222

Collaterals

The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with investing and financing assets. The collaterals include lien on savings and investment deposits, financial guarantees, equities, properties and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	2011 AED'000	2010 AED'000
Corporate and financial guarantees	**46,990,191**	53,863,873
Property and Mortgages	**25,999,080**	32,268,139
Deposits	**945,575**	801,921
Vehicles and machineries	**787,074**	463,720

The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2011 amounts to AED 6.01 billion (2010: AED 3.9 billion).

During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 6.5 million (2010: AED 8.8 million), which has been adjusted against the outstanding receivables

9 Investments in Islamic Sukuk

9.1 The analysis of the Bank's investment in Islamic Sukuk as at 31 December 2011 (classified in accordance with IFRS 9) is as follows:

	2011 AED'000
Investment in Islamic Sukuk measured at amortised cost	
Within U.A.E.	**11,946,910**
Other G.C.C. Countries	**128,899**
Rest of the World	**484,617**
Total	**12,560,426**

9.2 The analysis of the Bank's investment in Islamic Sukuk as at 31 December 2010 (classified in accordance with IAS 39) is as follows:

	2010 AED'000 (Restated)
Held to maturity – at amortised cost	
Within U.A.E.	6,567,730
Other G.C.C. Countries	136,705
Rest of the World	300,890
	7,005,325
Available for sale	
Within U.A.E.	1,195,151
Total	8,200,476

In accordance with IAS 39, held to maturity investments in Islamic sukuk as at 31 December 2010 were measured at amortised cost and available for sale investments in Islamic sukuk after initial recognition were re-measured at fair value with changes in fair value recognised in other comprehensive income.

10 Other investments

10.1 The analysis of the other investments as at 31 December 2011 (classified in accordance with IFRS 9).

	2011 AED'000
Investments carried at fair value through profit or loss	**52,987**
Investments carried at fair value through other comprehensive income	**1,981,402**
	2,034,389

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

10 Other investments (continued)

The analysis of the other investments as at 31 December 2011 (classified in accordance with IFRS 9) by geography is as follows:

	31 December 2011			
	Within U.A.E. AED'000	**Other G.C.C. Countries AED'000**	**Rest of the World AED'000**	**Total AED'000**
Investments carried at fair value through profit or loss				
Quoted equity instruments	**4,305**	**-**	**48,682**	**52,987**
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	**338,571**	**161,601**	**33,602**	**533,774**
Unquoted equity instruments	**962,748**	**61,685**	**68,387**	**1,092,820**
Unquoted investment funds	**122,117**	**5,851**	**226,840**	**354,808**
	1,423,436	**229,137**	**328,829**	**1,981,402**
Total	**1,427,741**	**229,137**	**377,511**	**2,034,389**

10.2 The analysis of the other investments as at 31 December 2010 (classified in accordance with IAS 39).

	2010 AED'000 (Restated)
Investments carried at fair value through profit or loss	108,406
Available for sale investments	1,664,540
	1,772,946

The analysis of the other investments as at 31 December 2010 (classified in accordance with IAS 39) by geography is as follows:

	31 December 2010 (Restated)			
	Within U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Quoted equity instruments	1,013	78,185	29,208	108,406
Available for sale investments				
Quoted equity instruments	443,654	122,526	35,168	601,348
Unquoted equity instruments	223,148	124,430	191,624	539,202
Unquoted investment funds	157,855	9,182	356,953	523,990
	824,657	256,138	583,745	1,664,540
Total	825,670	334,323	612,953	1,772,946

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

10 Other investments (continued)

Industry distribution of other investments is as follows:

	2011 AED'000	2010 AED'000 (Restated)
Banks and other financial institutions	**715,235**	889,542
Real estate	**90,974**	338,070
Manufacturing and others	**1,228,180**	545,334
	2,034,389	1,772,946

Until 31 December 2010, unquoted available for sale investments were carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows in accordance with IAS 39.

The available for sale investments at 31 December 2010 were assessed for indicators of impairment at the end of the reporting period. The available for sale investments, quoted and unquoted were identified when the fair value of these investments were below the cost for significant or prolonged period, accordingly investments were impaired. In 2010, the impaired loss which amounted to AED 136.3 million was recognised in the consolidated income statement (refer note 47).

11 Investments in associates

11.1 Significant associates

Details of the Bank's significant associates at the end of the reporting year are as follows:

	Associates	Principal activity	Country of incorporation
1.	Bank of Khartoum	Banking	Sudan
2.	Jordan Dubai Islamic Bank	Banking	Jordan
3.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.
4.	Liquidity Management Center (B.S.C.)	Brokers	Bahrain
5.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.
6.	MESC Investment Company	Investments	Jordan

Investments have been accounted for as investment in associates when the Bank is deemed to have significant influence. At December 31, 2011, the Bank discontinued the use of the equity method, for the Bank's interest in the equity of two entities due to the loss of the significant influence as defined under IAS 28, and accounted for these investments in accordance with IFRS 9.

At the date of reassessment, the carrying value and fair values of the investments are as follows:

	2011 AED'000
Carrying amount of investments in associates at the date of reassessment	**841,817**
Less: Fair value of investments at the date of reassessment	**(841,817)**
Net gain/(loss) on reclassification of investment at FVTOCI	**-**

11 Investments in associates (continued)

11.2 Investments in associates and share of profits/(losses)

	2011	2010
	AED'000	AED'000
		(Restated)
Investments in associates	**2,882,489**	3,793,183
Cumulative share of loss	**(537,668)**	(486,051)
Provision for impairment	**(8,382)**	(130,228)
	2,336,439	3,176,904

11.3 Provision for impairment of investments in associates

	2011	2010
	AED'000	AED'000
		(Restated)
Balance at the beginning of the year	**130,228**	117,991
Charge for the year (note 48)	**3,128**	12,237
Derecognized investments in associates	**(124,974)**	-
Balance at the end of the year	**8,382**	130,228

11.4 Carrying value of investment in associates

The following table illustrates summarised information of the Bank's investments in associates:

	2011	2010
	AED'000	AED'000
		(Restated)
Share of associates' financial positions:		
Assets	**6,532,020**	7,554,673
Liabilities	**(4,187,199)**	(4,247,540)
Net assets	**2,344,821**	3,307,133
Provision for impairment	**(8,382)**	(130,229)
	2,336,439	3,176,904
Share of associates' revenues and results:		
Revenues	**248,970**	334,026
Results	**28,551**	(1,099,891)

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

11 Investments in associates (continued)

11.5 Investment in associates by geography

Carrying value of investment in associates by geographical area are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within U.A.E.	**1,929,820**	2,625,863
Other G.C.C. Countries	**51,840**	49,835
Rest of the world	**354,779**	501,206
	2,336,439	3,176,904

As at 31 December 2011, the fair value of the Bank's interest in listed associates on the local stock exchanges, was AED 738 million (2010: AED 822 million) and the carrying amount of the Bank's interest in those associates was AED 2,007 million (2010: AED 2,243 million).

12 Properties under construction

The movement in properties under construction during the year was as follows:

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**524,165**	388,648
Additions during the year	**31,385**	135,517
Transfer to investment properties	**(450,266)**	-
Balance at the end of the year	**105,284**	524,165

13 Properties held for sale

Properties held for sale represent properties in U.A.E., Egypt and Lebanon that are registered in the name of certain subsidiaries and branches of the Bank.

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of year	**544,959**	157,269
Acquisition of controlling interest, net	**-**	399,899
Additions	**18,112**	29,747
Disposals (note 43)	**(15,296)**	(16,569)
Impaired during the year (note 48)	**(40,500)**	(20,000)
Exchange losses	**(2,803)**	(5,387)
Balance at the end of the year	**504,472**	544,959

14 Investment properties

14.1 Movement in investment properties is as follows:

2011	Land AED'000	Other Real Estate AED'000	Investment properties under construction AED'000	Total AED'000
Cost:				
Balance at the beginning of the year - restated	**1,223,131**	**872,977**	**-**	**2,096,108**
Additions	**45,508**	**219,378**	**-**	**264,886**
Transfer during the year	**-**	**-**	**450,266**	**450,266**
Disposals (refer note 14.2)	**(787,513)**	**-**	**-**	**(787,513)**
Exchange effect	**-**	**(11,306)**	**-**	**(11,306)**
Other	**(9,054)**	**-**	**-**	**(9,054)**
Balance at the end of the year	**472,072**	**1,081,049**	**450,266**	**2,003,387**
Accumulated depreciation/provision for impairment:				
Balance at the beginning of the year - restated	**-**	**173,197**	**-**	**173,197**
Charge for the year	**-**	**24,205**	**-**	**24,205**
Impairment, net	**-**	**19,401**	**-**	**19,401**
Exchange effect	**-**	**1,379**	**-**	**1,379**
Balance at the end of the year	**-**	**218,182**	**-**	**218,182**
Carrying amount at the end of year	**472,072**	**862,867**	**450,266**	**1,785,205**
2010 - (Restated)				
Cost:				
Balance at the beginning of the year	1,224,117	912,973	-	2,137,090
Additions	-	8,757	-	8,757
Disposals	(936)	(4,193)	-	(5,129)
Exchange effect	(50)	(44,560)	-	(44,610)
Balance at the end of the year	1,223,131	872,977	-	2,096,108
Accumulated depreciation/provision for impairment:				
Balance at the beginning of the year	300	140,502	-	140,802
Charge for the year	-	22,669	-	22,669
Impairment, net	-	13,629	-	13,629
Disposals	(300)	(626)	-	(926)
Exchange effect	-	(2,977)	-	(2,977)
Balance at the end of the year	-	173,197	-	173,197
Carrying amount at the end of year	1,223,131	699,780	-	1,922,911

14 Investment properties (continued)

14.2 Disposal of investment properties includes a sale of plots of land amounting AED 784.9 million. Effective 30 December 2011, the Bank entered into a sale and purchase agreement to sell properties held for future development and/or sale with a carrying value of AED 784.9 million. The salient terms and conditions of the sales and purchase agreement are as follows:

- The sales consideration is receivable on or before 30 December 2016;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the Purchaser. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof, must be of equal value (as verified by an independent real estate consultant jointly appointed by the Purchaser and Seller) to the amount due and payable under the agreement; and
- The commitments on the remaining purchase price for the plots of lands remain with the Bank.

The net sales consideration has been determined as follows:

	2011 AED'000
Sales consideration receivable on or before 30 December 2016	1,062,757
Deferred income on the assumption that settlement is on 30 December 2016	(277,902)
Net sales consideration	784,855
Cost of plots	(784,855)
Net gain/(loss) on sales of plots	-

14.3 Investments properties by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Land		
In U.A.E.	**420,339**	1,171,398
Rest of World	**51,733**	51,733
	472,072	1,223,131
Other real estate		
In U.A.E.	**568,037**	353,121
Rest of World	**508,548**	519,856
	1,076,585	872,977
Accumulated depreciation and impairment	**(213,718)**	(173,197)
	862,867	699,780
Investment property under construction		
In U.A.E.	**450,266**	-
	1,313,133	699,780
	1,785,205	1,922,911

14 Investment properties (continued)

14.4 The fair value of the Bank's investment properties as at 31 December 2011 is AED 2.38 billion (2010: AED 2.47 billion).

The Bank has carried out internal valuation of these properties as at 31 December 2011. The valuation were based on a discounted cash flow model supported by existing lease and current market rents for similar properties in the same location adjusted to reflect the level of completion of construction of these properties. The discount rate used reflects current market assessments of the uncertainty and timing of the cash flows.

The valuations were based on an individual assessment, for each property type, of both the future earnings and the required yield. In assessing the future earnings of the properties, potential changes in rental levels from each contract's rent and expiry date compared with estimated current market rent, as well as changes in occupancy rates and property costs.

Investment properties includes properties with a carrying value amount of AED 443.19 million (2010: 482.16 million) have been mortgaged by one of the subsidiary as security financing obligation to other bank.

15 Receivables and other assets

	2011 AED'000	2010 AED'000 (Restated)
Accrued profit on investing, financing and sukuks	**831,793**	876,448
Receivables on sale of investment properties, net (note 14.2)	**784,855**	-
Acceptances	**656,263**	597,799
Other income receivable	**197,200**	109,100
Trade receivables	**55,164**	72,202
Cheques sent for collection	**16,863**	13,236
Advances to contractors	**39,147**	4,456
Inventories	**8,874**	14,947
Prepaid expenses	**72,954**	87,908
Qard Hassan (profit-free facilities)	**-**	8,000
Overdrawn current accounts, net	**27,751**	39,816
Deferred taxation (note 26)	**19,297**	19,300
Islamic derivative assets (note 37)	**65,996**	61,074
Others	**323,179**	392,587
	3,099,336	2,296,873

Overdrawn current accounts, net are stated net of provision for impairment amounting to AED 51.20 million (2010: AED 54.50 million).

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

16 Property, plant and equipment

2011

	Land and buildings AED'000	Plant And Machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
Balance at the beginning of the year - restated	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Additions	1,446	165	12,326	6,970	154	37,077	58,138
Disposals	-	-	(6,025)	(8,658)	(442)	-	(15,125)
Written off	-	-	(205)	(599)	-	-	(804)
Other transfers	15,926	-	3,291	15,476	-	(39,297)	(4,604)
Exchange adjustments	(99)	(230)	(3,025)	(1,670)	(50)	(84)	(5,158)
Balance at the end of the year	416,058	84,063	383,270	421,891	3,630	22,771	1,331,683
Accumulated depreciation:							
Balance at the beginning of the year- restated	44,282	60,605	272,383	265,726	3,154	-	646,150
Charge for the year	20,965	3,729	39,407	56,007	205	-	120,313
Disposals	-	-	(5,307)	(8,657)	(442)	-	(14,406)
Written off	-	-	(87)	-	-	-	(87)
Exchange adjustments	-	(81)	(1,053)	(527)	(36)	-	(1,697)
Balance at the end of the year	65,247	64,253	305,343	312,549	2,881	-	750,273
Carrying amount							
Balance at the end of the year	350,811	19,810	77,927	109,342	749	22,771	581,410

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

16 Property, plant and equipment (continued)

2010 (Restated)

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
Balance at the beginning of the year	90,369	82,852	346,095	353,599	4,165	286,625	1,163,705
Acquisition of controlling interest	24,648	-	9,958	18,511	-	313	53,430
Additions	1,654	1,356	17,241	8,260	627	64,165	93,303
Disposals	(1,123)	-	(455)	-	(804)	-	(2,382)
Other transfers	283,271	-	5,082	30,643	-	(326,003)	(7,007)
Exchange adjustments	(34)	(80)	(1,013)	(641)	(20)	(25)	(1,813)
Balance at the end of the year – restated	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Accumulated depreciation:							
Balance at the beginning of the year	33,102	56,307	217,043	195,986	3,472	-	505,910
Acquisition of controlling interest	2,145	-	4,378	12,434	-	-	18,957
Charge for the year	9,035	4,317	51,549	57,527	427	-	122,855
Disposals	-	-	(303)	-	(730)	-	(1,033)
Reclassification	-	-	30	(30)	-	-	-
Exchange adjustments	-	(19)	(314)	(191)	(15)	-	(539)
Balance at the end of the year – restated	44,282	60,605	272,383	265,726	3,154	-	646,150
Carrying amount							
Balance at the end of the year – restated	354,503	23,523	104,525	144,646	814	25,075	653,086

Capital work in progress comprises cost incurred on information technology projects and civil work for branch network.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

17 Goodwill

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**17,258**	34,516
Impaired during the year (note 48)	**(17,258)**	(17,258)
Balance at the end of the year	**-**	17,258

Impairment testing of goodwill

The goodwill resulting from a business combination has been tested for impairment and accordingly the carrying value of goodwill adjusted for impairment.

18 Investments in joint ventures

18.1 Significant joint ventures

Details of the Bank's significant joint ventures at the end of reporting period are as follows:

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2011	Percentage of equity 2010
1.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	50.0%	50.0%
2.	Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50.0%	50.0%
3.	Al Rimal Development	Property development	U.A.E.	50.0%	50.0%
4.	Gulf Tankers L.L.C. (under liquidation)	Cargo and transport	U.A.E.	50.0%	50.0%

The entity listed as 4 did not conduct any operations during the current or previous periods.

18.2 Carrying value of investment in joint ventures

The Bank's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are disclosed below:

	2011 AED'000	2010 AED'000 (Restated)
Cash and balances with banks	**273**	1,186
Other investments	**763**	1,013
Properties under construction	**47,808**	47,803
Receivables and other assets	**17,961**	16,474
Property and equipment	**3,952**	5,615
Total assets	**70,757**	72,091
Total liabilities	**30,813**	32,633
Net profit for the year	**13,917**	16,045

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

19 Subsidiaries

The Bank's interest held directly or indirectly in the subsidiaries are as follows:

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2011	2010
1.	DIB Capital Limited	Investments and financial services	U.A.E.	95.5%	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
3.	Tamweel P.J.S.C.	Financing and investment	U.A.E	58.3%	58.3%
4.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Millennium Capital Holding P.S.C.	Financing & investing	U.A.E.	95.5%	95.5%
6.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
7.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
8.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	100.0%	100.0%
9.	Emirates REIT Management Private Limited	Properties management	U.A.E	60.0%	60.0%
10.	Emirates REIT CIEC	Real Estate Fund	U.A.E	63.7%	-
11.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	96.0%
12.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	96.0%
13.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
14.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
15.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
16.	Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
17.	Petra Limited	Investments	Cayman Islands	100.0%	100.0%
18.	Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	U.A.E.	75.5%	75.5%
19.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
20.	Tamweel Funding Limited	Sukuk	Jersey	58.3%	58.3%
21.	Tamweel Sukuk Limited	Sukuk	Cayman Islands	58.3%	58.3%
22.	Tamweel ESOT Limited	Employees share options	British Virgin Islands	58.3%	58.3%
23.	Tamweel Properties & Investments L.L.C	Real estate development	U.A.E	58.3%	58.3%
24.	Tahfeez Middle East Limited	General trading	U.A.E	58.3%	58.3%

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

19 Subsidiaries (continued)

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

	SPV	Principal activity	Country of incorporation	Percentage of equity 2011	2010
25.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
26.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
27.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
28.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
29.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
30.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
31.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
32.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
33.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
34.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
35.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
36.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
37.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
38.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
39.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
40.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
41.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
42.	Bulwark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
43.	Optimum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
44.	Rubicon Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
45.	Osiris Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
46.	Lotus Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
47.	Premiere Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
48.	Landmark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
49.	Blackstone Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
50.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
51.	Momentum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
52.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%

In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 5, 7, 14, 15, 18 and 41 to 52 are also beneficially held by the Bank through nominee arrangements.

The entity listed as 8 did not conduct any operations during the current or previous periods.

20 Business combination - Acquisition of Tamweel P.J.S.C.

Tamweel P.J.S.C. ("the Company"), a company listed in Dubai Financial Market and engaged in Islamic Sharia'a compliant financing and investment activities became a subsidiary of the Bank on the 4th of November 2010. The Bank acquired further shares of the Company from major shareholders thereby acquiring a controlling interest. The acquisition was done to unfold the value of the Company by providing long term strategic support. The acquisition helped the Bank in becoming largest retail Islamic home financing bank in the U.A.E.

The fair value of identifiable assets and liabilities of the Company as at the acquisition date was as follows:

	Recognised on acquisition 2010 AED'000
Cash and balances with banks	236,758
Islamic financing and investing assets	9,758,677
Other investments	46,859
Properties held for sale	399,899
Receivables and other assets	98,060
Property and equipment	34,473
Total assets	10,574,726
Financing obligation	7,528,058
Accounts payable and accruals	346,668
Total liabilities	7,874,726
Fair value of net assets – 100%	2,700,000
Consideration for acquisition	935,600
Less: fair value of identifiable net assets acquired	(1,572,638)
Gain on acquiring controlling interest	637,038

The fair value of the net assets was determined by the Bank on the basis of valuation of the Company carried by an external valuer that was not related to the Bank. The valuation of the Company was based on generally accepted business valuation techniques including the dividend discount model and adjusted book value method.

Consideration of acquisition

	2010 AED'000
Cash	318,609
Transfer of treasury shares	56,121
Fair value of available for sale shares	560,870
Total consideration	935,600

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

20 Business combination - Acquisition of Tamweel P.J.S.C (continued)

The transaction cost amounting to AED 1.1 million was excluded from the consideration transferred and have been recognised as an expenses in the consolidated income statement for the year ended 31 December 2010.

Non-controlling interest of the Company was recognised at the acquisition date and was measured at cost.

The total revenue and net profit of the Bank for the year ended 31 December 2010 included AED 89.9 million and AED 6.1 million respectively in respect of post acquisition period. Had the Company been acquired on 1 January 2010, the total revenue and net profit of the Bank for 2010 would had increased by AED 607 million and AED 21.4 million respectively.

21 Customers' deposits

	2011 AED'000	2010 AED'000 (Restated)
a) By type:		
Current accounts	**17,784,560**	15,087,566
Saving accounts	**10,848,614**	10,047,003
Investment deposits	**35,912,221**	38,124,012
Margin accounts	**192,765**	188,102
Depositors' investment risk reserve (note 52)	**33,157**	387
	64,771,317	63,447,070
b) By contractual maturity:		
Demand deposits	**27,472,555**	24,876,422
Deposits due within 3 months	**17,963,826**	18,843,284
Deposits due within 6 months	**6,998,065**	7,269,059
Deposits due within 1 year	**10,586,682**	12,310,178
Deposits due over 1 year	**1,750,189**	148,127
	64,771,317	63,447,070
c) By geographical areas:		
Within U.A.E.	**62,910,730**	61,122,089
Outside U.A.E.	**1,860,587**	2,324,981
	64,771,317	63,447,070
d) By currency:		
U.A.E. Dirham	**58,176,803**	58,724,097
Other currencies	**6,594,514**	4,722,973
	64,771,317	63,447,070

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

22 Due to banks and financial institutions

	2011 AED'000	2010 AED'000 (Restated)
Current accounts	**218,294**	51,517
Investment deposits	**3,834,139**	4,357,910
	4,052,433	4,409,427

Due to banks and financial institutions by geography is as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within U.A.E.	**3,879,534**	3,993,101
Outside U.A.E.	**172,899**	416,326
	4,052,433	4,409,427

23 Sukuk financing instruments

	2011 AED'000	2010 AED'000 (Restated)
23.1 Sukuk financing instruments issued by the Bank	**2,357,075**	2,357,075
23.2 Sukuks financing instruments issued by a subsidiary	**1,816,908**	1,818,940
	4,173,983	4,176,015

23.1 Sukuk financing instruments issued by the Bank

During 2007 the Bank, through a Sharia'a compliant Sukuk Financing arrangement, raised a US Dollar denominated medium term finance amounting to AED 2,754.75 million (USD 750 million). The sukuk are listed on the NASDAQ Dubai and the London Stock Exchange.

The terms of the arrangement include transfer of certain identified assets (the "Co Owned Assets") including original leased and musharakat assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to a Sukuk company, DIB Sukuk Company Limited – (the "Issuer"), especially formed for the sukuk transaction. The assets are in the control of the Bank and shall continue to be serviced by the Bank. The sukuk certificates mature during March 2012.

The Issuer will pay the quarterly distribution amount from returns received in respect of the Co Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuk, the Bank has undertaken to repurchase the assets at the exercise price.

The sukuks bear a variable profit rate payable to the investors based on the rate of 3 months LIBOR plus 0.33% per annum. Such profits are payable on a quarterly basis.

23 Sukuk financing instruments (continued)

23.1 Sukuk financing instruments issued by the Bank (continued)

During 2010, sukuks amounting to AED 58 million (USD 15.8 million) were bought back at a discount, including buy back through a cash tender offer to sukuk holders. The Bank recognised AED 6.4 million in 2010 as gain on sukuk buy back which is included under other income. These sukuk certificates will be cancelled upon maturity when the Bank will re-purchase the Co Owned Assets.

23.2 Sukuks financing instruments issued by a subsidiary

During 2008, a subsidiary of the Bank issued Sharia'a compliant, non-convertible sukuk in the form of Trust Certificates for the total value of AED 1,100 million (at a rate of 3 months EIBOR Plus 0.225% per annum) and convertible sukuk for a total value of USD 300 million (at a fixed profit rate of 4.31% per annum), which are listed on NASDAQ Dubai. The sukuk certificates mature in 2013.

In accordance with the terms of the subscription, each Trust Certificate may be redeemed at the option of the Certificate holder or the subsidiary as follows:

a. At the option of the Certificate holder through "Voluntary Early Redemption" at any time one year after the issue date subject to satisfying certain conditions;
b. At the option of the subsidiary at any time 3 years after the issue date through "Optional Partial Redemption" subject to satisfying certain condition.

In both the options, the subsidiary will either issue the share of the subsidiary at the relevant exchange price or cash will be paid.

At the time of final maturity, any remaining Trust Certificates will be redeemed in full by a subsidiary in cash at face value plus any unpaid profit amount.

24 Medium term wakala finance

The Bank opted to re-categorise wakala deposits received in 2008 from UAE Ministry of Finance amounting to AED 3.75 billion to Tier 2 qualifying finance ("Tier 2 finance"). The conversion process has been approved by the Shareholders in the Extraordinary General Meeting held in April 2009. The wakala deposits provided by the UAE Ministry of Finance (the Muwakkil) to the Bank (the Wakeel) will be used for investments for a tenor of seven years commencing from the date of re-categorisation and will mature in December 2016. Wakala profit will be paid every three months based on the expected profit rate range of 4.00% - 5.25% per annum.

In accordance with the terms of wakala agreement, the Muwakkil's rights and claims on the Wakeel in respect of wakala are wholly subordinated to the rights and claims of all other non subordinated creditors.

25 Payables and other liabilities

	2011 AED'000	2010 AED'000 (Restated)
Depositors' share of profits (note 49)	**259,458**	329,928
Payable for properties	**240,933**	248,153
Bankers cheques	**155,661**	185,822
Sundry deposits	**377,468**	429,357
Trade payables	**449,174**	411,411
Vendor payable for investing and financing assets	**55,778**	116,487
Provision for employees' end-of-service benefits (note 27)	**110,152**	101,737
Acceptances payable	**656,263**	597,799
Unclaimed dividends	**35,651**	52,121
Directors' remuneration	**5,350**	4,800
Payable to contractors	**24,848**	18,274
Fund transfer and remittances	**31,734**	51,508
Investments related payable	**293,585**	293,585
Cheques received for collection	**413**	465
Provision for taxation (note 26)	**5,346**	3,623
Islamic derivative liabilities (note 37)	**23,897**	14,029
Other	**817,644**	820,824
	3,543,355	3,679,923

26 Taxation

26.1 Provision for taxation

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**3,623**	-
Charge for the year	**7,740**	5,037
Tax paid	**(6,017)**	(1,414)
Balance at the end of the year (note 25)	**5,346**	3,623

26.2 Deferred tax asset

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**19,300**	18,057
Additions during the year	**958**	1,545
Exchange effect	**(961)**	(302)
Balance at the end of the year (note 15)	**19,297**	19,300

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

26 Taxation (continued)

26.3 Tax expense for the year

	2011 AED'000	2010 AED'000 (Restated)
Current taxation	**(7,740)**	(5,037)
Deferred taxation	**958**	1,545
Income tax expense	**(6,782)**	(3,492)

27 Provision for employees' end-of-service benefits

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**101,737**	89,554
Charge during the year	**19,248**	27,140
Paid during the year	**(10,833)**	(14,957)
Balance at the end of the year (note 25)	**110,152**	101,737

28 Accrued Zakat

28.1 Zakat on shareholders' equity

	2011 AED'000	2010 AED'000 (Restated)
Zakat charged to the consolidated statement of changes of equity	**152,244**	146,326
Zakat accounted and paid directly by other investee companies	**(11,668)**	-
Shareholders' zakat for the year	**140,576**	146,326

28.2 Zakat Payable

	2011 AED'000	2010 AED'000 (Restated)
Zakat on Shareholders' equity*	**140,151**	146,326
Zakat accounted by subsidiaries	**(19,952)**	-
Net Zakat payable on shareholders' equity	**120,199**	146,326
Zakat on depositors' investment risk reserve (note 52)	**877**	10
	121,076	146,336

* Zakat on shareholders' equity is stated net of AED 425,000 relating 2010.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

29 Share capital

	2011 Number of Shares'000	2011 Amount in AED'000	2010 (Restated) Number of shares'000	2010 (Restated) Amount in AED'000
Authorised				
Ordinary shares of AED 1 each	**3,797,054**	**3,797,054**	3,797,054	3,797,054
Issued and fully paid up				
Balance at the beginning of the year	**3,797,054**	**3,797,054**	3,617,505	3,617,505
Bonus shares	-	-	179,549	179,549
Balance at the end of the year	**3,797,054**	**3,797,054**	3,797,054	3,797,054

During 2010, 179,549,000 shares of AED 1 each were issued as bonus shares.

30 Reserves

	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Exchange translation reserve AED'000	Total AED'000
As at 1 January 2010	2,731,879	276,139	2,350,000	(77,841)	5,280,177
Exchange adjustments	-	-	-	(13,700)	(13,700)
As at 1 January 2011 - restated	2,731,879	276,139	2,350,000	(91,541)	5,266,477
Exchange adjustments	-	-	-	(30,677)	(30,677)
Other movements	-	(9,054)	-	-	(9,054)
As at 31 December 2011	**2,731,879**	**267,085**	**2,350,000**	**(122,218)**	**5,226,746**

Statutory reserve

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

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital.

Donated land reserve

The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (note 14). The donated land reserve represents the fair value of the land at the time of the donation.

General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

31 Investments fair value reserve

	2011 AED'000	2010 AED'000 (Restated)
Balance at the beginning of the year	**(243,166)**	(723,713)
Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (note 2.1)	**(441,973)**	-
Net unrealised losses on other investments carried at FVTOCI	**(146,724)**	-
Net unrealised gain on available for sale investments	-	606,140
Reclassification of realised loss on disposal of other investments carried at FVTOCI	**14**	-
Reclassification of realised gain on disposal of available for sale investments to profit or loss	-	(125,593)
Balance at the end of the year	**(831,849)**	(243,166)

32 Dividends paid and proposed

	2011 AED'000	2010 AED'000 (Restated)
Dividend proposed		
Cash dividend: (2011: AED 0.10 per share)	**379,705**	-
Dividend proposed and paid		
Cash dividend: (2010: AED 0.10 per share)	-	379,705

33 Hedging reserve

During 2009 the Bank discontinued its cash flow hedge of a forecast transaction which resulted in reclassification of associated cumulative gains during 2011 of AED 10.6 million (2010: AED 39.9 million). Refer to note 41.

34 Employee stock Ownership plan (ESOP)

The Bank commenced Employee Stock Ownership Plans (ESOP) to recognise and retain key employees in 2004. The plans give employees the right to own the Bank's shares at the issue price.

The following share based payment arrangements were in existence in current and previous years.

	Issue year	*No of shares*	*Grant date*	*Expiry date*	*Exercise price*	*Fair value at grant date*
1	2006	4,113,000	January 2006	February 2010	2	26.7
2	2010	1,560,000	April 2010	March 2012	-	2.0

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

34 Employee stock Ownership plan (ESOP) (continued)

The shares were granted under nominee arrangements, to various categories of employees on condition that the employees continue in the service of the Bank for an agreed minimum period ranging between two to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares would revert back to the Bank. Generally, the management considers it unlikely that a significant amount of shares would revert back to the Bank on account of employees leaving before completing their vesting period. The fair value of existing ESOP in current and previous years on grant date and adjusted charge over vesting period is as follows.

Year	*Current charge to consolidated income statement* AED '000	*Charge to consolidated income statement at grant date* AED '000
2006	30,312	30,312
2007	36,846	36,846
2008	18,049	25,085
2009	5,444	6,856
2010	1,580	3,594
2011	1,653	1,653
2012	551	551
Total	94,435	104,897

35 Non-controlling interests

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

36 Contingent liabilities and commitments

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

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

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

36 Contingent liabilities and commitments (continued)

Financing-related financial instruments (continued)

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

	2011 AED'000	2010 AED'000 (Restated)
Contingent liabilities:		
Letters of guarantee	**7,510,949**	8,774,047
Letters of credit	**2,081,825**	2,535,666
	9,592,774	11,309,713
Commitments:		
Capital expenditure commitments	**316,575**	388,932
Irrevocable undrawn facilities commitments	**8,756,501**	12,567,539
	9,073,076	12,956,471
Total contingent liabilities and commitments	**18,665,850**	24,266,184

37 Islamic derivatives

The table below shows the positive and negative fair values of Islamic derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of an Islamic derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of Islamic derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2011: *Notional amounts by term to maturity*

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	27,164	23,897	7,486,069	1,924,071	5,561,998	-	-	-
Islamic profit rate Swaps	38,832	-	9,299,959	-	6,588,590	146,920	1,941,443	623,006
	65,996	23,897	16,786,028	1,924,071	12,150,588	146,920	1,941,443	623,006

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

37 Islamic derivatives (continued)

31 December 2010: *Notional amounts by term to maturity - restated*

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	15,127	14,029	5,308,254	2,552,713	2,748,360	7,181	-	-
Islamic profit rate Swaps	45,947	-	9,995,651	-	-	9,324,101	-	671,550
	61,074	14,029	15,303,905	2,552,713	2,748,360	9,331,282	-	671,550

The Bank has positions in the following types of derivative.

Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

Islamic Swaps

Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and strategic hedging (see below). Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

For profit rate risk, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into profit rate swaps. As strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

38 Income from Islamic financing and investing assets

	2011 AED'000	2010 AED'000 (Restated)
Islamic financing assets		
Commodities murabahat	**306,844**	416,517
International murabahat	**7,839**	10,023
Vehicles murabahat	**443,779**	486,552
Real estate murabahat	**223,674**	258,304
Total murabahat income	**982,136**	1,171,396
Istisna'a	**449,051**	471,337
Home finance ijara	**590,884**	188,907
Ijara	**449,692**	432,505
Salam finance	**264,979**	52,349
Income from Islamic financing assets	**2,736,742**	2,316,494
Islamic Investing assets		
Musharakat	**458,902**	597,013
Mudarabat	**200,455**	270,604
Wakalat	**52,407**	37,584
Income from Islamic investing assets	**711,764**	905,201
Total income from Islamic financing and investing assets	**3,448,506**	3,221,695

Income from investing and financing assets is presented net of forfeited income of AED 4.2 million (2010: AED 6.2 million).

39 Income from International murabahats and wakala, short term

	2011 AED'000	2010 AED'000 (Restated)
Income from International murabahats from Banks and financial institutions	**6,707**	13,328
Income from Investment and wakala deposits	**17,326**	21,199
Income from International murabahats with Central Bank	**59,100**	1,786
	83,133	36,313

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

40 Gain from other investments

	2011 AED'000	2010 AED'000 (Restated)
Dividend income	**35,679**	25,693
Realized gain on disposal of investments	**3,898**	123,652
Unrealized loss on revaluation of investments	**(541)**	(13,182)
	39,036	136,163

Dividend income is presented net of forfeited income of AED 3.4 million (2010: AED 2.7 million).

41 Commissions, fees, and foreign exchange income

	2011 AED'000	2010 AED'000 (Restated)
Trade related commission and fees	**188,966**	170,933
Other commissions and fees	**401,391**	371,430
Gains on unilateral promise to buy/sell currencies	**90,436**	102,836
Cumulative gains on hedging reserve reclassified to profit or loss (note 33)	**10,656**	39,944
Fair value of Islamic derivatives	**9,138**	1,887
	700,587	687,030

42 Income from investment properties

	2011 AED'000	2010 AED'000 (Restated)
Net rental income	**70,042**	72,165
Gain on sale of investment properties	**-**	18,001
	70,042	90,166

Net rental income is presented net of forfeited income of AED 0.2 million (2010: AED 0.2 million).

43 Income from sale of properties held for sale

	2011 AED'000	2010 AED'000 (Restated)
Sales proceeds	**30,686**	31,067
Cost of sale (note 13)	**(15,296)**	(16,569)
	15,390	14,498

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

44 Other income

	2011 AED'000	2010 AED'000 (Restated)
Services income, net	**65,402**	85,059
Other	**65,435**	54,947
	130,837	140,006

45 Personnel expenses

	2011 AED'000	2010 AED'000 (Restated)
Salaries and wages	**883,653**	779,673
Staff terminal benefits	**19,248**	27,140
Share based payments	**1,653**	1,581
Other	**4,329**	9,425
	908,883	817,819

46 General and administrative expenses

	2011 AED'000	2010 AED'000 (Restated)
Administrative expenses	**90,977**	90,033
Depreciation of property, plant and equipment (note 16)	**120,313**	122,855
Rental charges under operating leases	**67,682**	77,194
Communication costs	**61,672**	72,638
Premises and equipment maintenance costs	**108,386**	94,692
Printing and stationery	**8,873**	13,284
Other	**105,506**	72,247
	563,409	542,943

47 Impairment loss on financial assets, net

	2011 AED'000	2010 AED'000 (Restated)
Net provision for Islamic financing assets	**666,702**	617,287
Net provision for Islamic investing assets	**310,598**	36,149
Net provision for receivables and other assets	**17,664**	11,328
Impairment loss on available for sale investments	**-**	136,291
	994,964	801,055

48 Impairment loss on non-financial assets, net

	2011 AED'000	2010 AED'000 (Restated)
Impairment loss on investment in associates (note 11)	**3,128**	12,237
Impairment of investment in joint venture	**11,661**	-
Impairment of investment properties (note 14)	**19,401**	13,329
Impairment of properties held for sale (note 13)	**40,500**	20,000
Impairment of goodwill (note 17)	**17,258**	17,258
	91,948	62,824

49 Depositors' share of profits

	2011 AED'000	2010 AED'000 (Restated)
Share for the year	**1,386,808**	1,435,631
Less: Pertaining to depositors' investment risk reserve (note 52)	**(636)**	(511)
Transfer (to)/from depositors' investment risk reserve, net (note 52)	**(33,011)**	42,000
	1,353,161	1,477,120
Less: Paid during the year	**(1,093,703)**	(1,147,192)
Depositors' share of profit payable (note 25)	**259,458**	329,928
Share of profits accrued to customers and financial institutions are as follows:		
Investment and savings deposits from customers	**699,941**	996,491
Wakala and other investment deposits from banks and customers	**560,788**	409,884
Profit accrued on sukuk financing instrument	**126,079**	29,256
	1,386,808	1,435,631

50 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2011	2010 (Restated)
Profit for the year net of directors' remuneration of AED 5,350,000 (2010: AED 4,800,000)	**1,004,791,000**	548,353,000
Weighted average number of shares of AED 1 each outstanding during the year	**3,797,054,000**	3,776,269,000
Basic and diluted earnings per share in AED	**0.26**	0.15

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

51 Cash and cash equivalents

	2011 AED'000	2010 AED'000 (Restated)
Cash and balances with Central Banks	**12,952,319**	11,247,225
Due from banks and financial institutions	**3,043,096**	2,356,531
	15,995,415	13,603,756
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(6,521,845)**	(3,120,075)
	9,473,570	10,483,681

52 Depositors' investment risk reserve

	2011 AED'000	2010 AED'000 (Restated)
Balance, beginning of the year – as reported	**387**	41,886
Share of profit for the year (note 49)	**636**	511
Zakat for the year (note 28)	**(877)**	(10)
Transfer from / (to) depositors' share of profit during the year, net (note 49)	**33,011**	(42,000)
Balance, end of the year (note 21)	**33,157**	387

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

53 Related party transactions

The Bank enters into arms length transactions with Shareholders, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

53 Related party transactions (continued)

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

	Major Shareholders	Directors and key management personnel	Associates	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2011				
Islamic financing and investing assets	**612,167**	**34,468**	**390,000**	**1,036,635**
Customers' deposits	**2,676,188**	**132,076**	**80,272**	**2,888,536**
Income from Islamic financing and investing assets	**37,823**	**2,384**	**24,178**	**64,385**
Depositors' share of profits	**82,820**	**23,464**	**1,741**	**108,025**
Contingent liabilities	**-**	**8**	**700**	**708**
31 December 2010 - restated				
Islamic financing and investing assets	1,836,500	183,701	463,475	2,483,676
Customers' deposits	2,847,087	43,772	172,052	3,062,911
Income from Islamic financing and investing assets	56,914	10,662	4,321	71,897
Depositors' share of profits	107,538	663	171	108,372
Contingent liabilities	-	303	700	1,003

No impairment allowances have been recognized against financing and investing assets extended to related parties or contingent liabilities issued in favor of related parties during the year ended 31 December 2011 (31 December 2010 : Nil).

The compensation paid to key management personnel of the Bank is as follows:

	2011 AED'000	2010 AED'000 (Restated)
Salaries and other benefits	**26,205**	28,915
Employee terminal benefits	**1,889**	1,948

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

54 Segmental information

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Reportable segments

The Bank's reporting segments are organised into four major business segments as follows:

i) Retail and business banking:	Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, islamic card and funds transfer facilities and trade finance facilities.
ii) Wholesale Banking:	Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.
iii) Real estate:	Property development and other real estate investments.
iv) Treasury:	Principally responsible for managing the Bank's overall liquidity and market risk and provide treasury services to customers. Treasury also run its own Islamic Sukuk portfolio and specialise financial instruments book to manage the above risk.
iv) Other:	Functions other then above core lines of businesses.

Transactions between segments are conducted at estimated profit rates which approximate market rates on an arm's length basis.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

54 Segmental information (continued)

Reportable segments

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December:

	Retail and business Banking		Wholesale banking		Real estate		Treasury		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Net operating revenue	**1,835,901**	1,615,121	**1,227,434**	1,076,996	**(164,353)**	(215,074)	**461,320**	360,219	**257,753**	435,656	**3,618,055**	3,272,918
Share of profit /(loss) of associates	**-**	-	**37,723**	25,614	**(9,172)**	(1,125,505)	**-**	-	**-**	-	**28,551**	(1,099,891)
Gain on acquiring controlling interest	**-**	-	**-**	-	**-**	-	**-**	-	**-**	637,038	**-**	637,038
Operating expense	**(1,047,377)**	(893,736)	**(243,176)**	(297,274)	**(81,351)**	(67,162)	**(21,689)**	(20,623)	**(102,904)**	(104,636)	**(1,496,497)**	(1,383,431)
Provision for impairment	**(247,764)**	(178,141)	**(837,957)**	(677,285)	**-**	-	**-**	-	**(1,191)**	(8,453)	**(1,086,912)**	(863,879)
Profit for the year before tax	**540,760**	543,244	**184,024**	128,051	**(254,876)**	(1,407,741)	**439,631**	339,596	**153,658**	959,605	**1,063,197**	562,755
Income tax											**(6,782)**	(3,492)
Profit for the year											**1,056,415**	559,263

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

54 Segmental information (continued)

Reportable segments

The following table presents assets, liabilities, equity and capital expenditure regarding the Bank's business segments:

	Retail and business banking		Wholesale Banking		Real estate		Treasury		Other		Total	
	2011 AED'000	2010 AED'000 (Restated)	**2011 AED'000**	2010 AED'000 (Restated)	**2011 AED'000**	2010 AED'000 (Restated)	**2011 AED'000**	2010 AED'000 (Restated)	**2011 AED'000**	2010 AED'000 (Restated)	**2011 AED'000**	2010 AED'000 (Restated)
Segment assets	**23,916,930**	23,718,232	**31,791,056**	38,116,923	**3,874,977**	4,601,376	**13,940,058**	9,598,156	**17,065,443**	13,849,714	**90,588,464**	89,884,401
Segment liabilities and equity	**47,519,470**	46,862,730	**20,893,587**	21,196,665	**897,844**	293,726	**8,716,516**	8,925,308	**12,561,047**	12,605,972	**90,588,464**	89,884,401
Capital expenditure	**17,441**	27,991	**17,441**	27,991	**-**	-	**11,628**	18,661	**11,628**	18,660	**58,138**	93,303

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

54 Segmental information (continued)

Geographical information

Although the management of the Bank is based primarily on business segments, the Bank operates in two geographic markets: U.A.E. which is designated as domestic and outside the U.A.E. which is designated as international. The following table shows the distribution of the Bank's operating income by geographical segment:

	Domestic		*International*		*Total*	
	2011	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Gross income	**4,608,770**	3,161,654	**424,644**	447,004	**5,033,414**	3,608,658

The following table shows the distribution of the Bank's total assets, total liabilities and capital expenditure by geographical segment:

	Domestic		*International*		*Total*	
	2011	2010	**2011**	2010	**2011**	2010
	AED'000	AED'000 (Restated)	**AED'000**	AED'000 (Restated)	**AED'000**	AED'000 (Restated)
Financial assets	**83,232,379**	80,035,925	**1,942,150**	1,512,284	**85,174,529**	81,548,209
Non-financial assets	**1,363,564**	3,820,934	**4,050,371**	4,515,258	**5,413,935**	8,336,192
Total assets	**84,595,943**	83,856,859	**5,992,521**	6,027,542	**90,588,464**	89,884,401
Total liabilities and equity	**85,856,351**	84,503,973	**4,732,113**	5,380,428	**90,588,464**	89,884,401
Capital expenditure	**46,785**	78,869	**11,353**	14,434	**58,138**	93,303

55 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2011

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	2,353,995	5,081,320	5,517,004	-	-	12,952,319
Due from banks and financial institutions	2,529,596	513,500	-	-	-	3,043,096
Islamic financing and investing assets	4,954,901	3,201,254	8,147,347	21,965,054	13,317,532	51,586,088
Investment in Islamic sukuk	13	1,951	12,385	11,260,998	1,285,079	12,560,426
Other investments	-	-	586,761	1,447,628	-	2,034,389
Investments in associates	-	-	-	2,336,439	-	2,336,439
Properties under construction	-	-	-	105,284	-	105,284
Properties held for sale	-	-	-	504,472	-	504,472
Investment properties	-	-	-	1,785,205	-	1,785,205
Receivables and other assets	42,417	88,028	2,900,413	62,634	5,844	3,099,336
Property, plant and equipment	9,595	18,642	82,157	142,375	328,641	581,410
Goodwill	-	-	-	-	-	-
Total assets	9,890,517	8,904,695	17,246,067	39,610,089	14,937,096	90,588,464
Liabilities:						
Customers' deposits	8,200,872	6,781,147	28,294,049	21,472,142	23,107	64,771,317
Due to banks and other financial institutions	451,096	125,275	1,327,135	2,148,927	-	4,052,433
Sukuk financing instruments	-	2,357,074	-	1,816,909	-	4,173,983
Medium term wakala finance	-	-	-	3,752,543	-	3,752,543
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	-	-	121,076	-	-	121,076
Equity	-	-	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	10,235,124	9,437,387	30,933,564	29,327,158	10,655,231	90,588,464
Net maturities gap	(344,607)	(532,692)	(13,687,497)	10,282,931	4,281,865	-

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

55 Maturity analysis of assets and liabilities (continued)

At 31 December 2010 - restated

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	4,135,310	4,310,176	2,801,739	-	-	11,247,225
Due from banks and financial institutions	395,530	1,638,868	322,133	-	-	2,356,531
Islamic financing and investing assets	5,746,037	2,985,310	6,903,828	21,459,918	20,075,974	57,171,067
Investment in Islamic sukuk	14	-	240,339	6,630,716	1,329,407	8,200,476
Other investments	-	-	706,995	1,065,951	-	1,772,946
Investments in associates	-	-	-	3,176,904	-	3,176,904
Properties under construction	-	-	-	524,165	-	524,165
Properties held for sale	-	-	135,368	409,591	-	544,959
Investment properties	-	-	-	1,922,911	-	1,922,911
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,843	2,296,873
Property, plant and equipment	9,887	19,227	85,100	199,462	339,410	653,086
Goodwill	-	-	-	17,258	-	17,258
Total assets	10,347,290	9,034,525	13,288,738	35,463,214	21,750,634	89,884,401
Liabilities:						
Customers' deposits	9,098,359	6,596,396	27,085,844	20,643,365	23,106	63,447,070
Due to banks and other financial institutions	183,309	435,594	1,747,226	2,043,298	-	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	-	4,176,015
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Equity	-	-	379,705	(243,166)	10,136,548	10,273,087
Total liabilities and equity	10,716,133	7,298,417	30,890,697	27,066,957	13,912,197	89,884,401
Net maturities gap	(368,843)	1,736,108	(17,601,959)	8,396,257	7,838,437	-

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

56 Financial assets and liabilities

56.1 The table below illustrates the classification and measurements of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2011.

	Original measurement Category IAS 39	New measurement Category IFRS 9	Original carrying amount AED'000	New carrying amount AED'000
Cash and balances with central banks	Amortised cost	Amortised cost	11,247,225	11,247,225
Due from banks and financial institutions	Amortised cost	Amortised cost	2,356,531	2,356,531
Islamic financing and investing assets	Financing and receivables	Amortised cost	57,171,067	57,171,067
Investment in Islamic sukuk				
- Held to maturity	Held to maturity	Amortised cost	7,005,325	7,005,325
- Available for sale	Available for sale	Amortised cost	1,195,151	1,190,619
Other investments				
Investment carried at fair value through income statement				
- Equity instruments held for trading	FVTPL	FVTPL	1,011	1,011
- Equity instruments designated as at FVTPL	FVTPL	FVOCI	107,395	107,395
Available for sale				
- Quoted Equity instruments	Available for sale	FVOCI	601,348	601,348
- Unquoted Equity instruments	Available for sale at cost	FVOCI	1,063,192	589,681
Receivables and other assets	Amortised cost	Amortised cost	1,960,509	1,960,509
	FVTPL	FVTPL	61,074	61,074
			82,769,828	82,291,785

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

56 Financial assets and liabilities (continued)

56.2 The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts under IFRS 9 as at 31 December 2011.

At 31 December 2011

	Fair value through OCI AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets				
Balances with central banks	-	-	**11,457,901**	**11,457,901**
Due from banks and financial institutions	-	-	**3,043,096**	**3,043,096**
Islamic financing and investing assets	-	-	**51,586,088**	**51,586,088**
Investment in Islamic sukuk	-	-	**12,560,426**	**12,560,426**
Other investments	**1,981,402**	**52,987**	-	**2,034,389**
Receivables and other assets	-	**65,996**	**2,932,215**	**2,998,211**
	1,981,402	**118,983**	**81,579,726**	**83,680,111**
Financial liabilities				
Customer deposits	-	-	**64,771,317**	**64,771,317**
Due to banks and other financial institutions	-	-	**4,052,433**	**4,052,433**
Sukuk financing instruments	-	-	**4,173,983**	**4,173,983**
Medium term wakala finance	-	-	**3,752,543**	**3,752,543**
Other liabilities	-	**23,897**	**3,519,458**	**3,543,355**
	-	**23,897**	**80,269,734**	**80,293,631**

The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts under IAS 39 as at 31 December 2010:

At 31 December 2010 - restated

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	9,872,471	9,872,471
Due from banks and financial institutions	-	-	-	2,356,531	2,356,531
Islamic financing and investing assets	57,171,067	-	-	-	57,171,067
Investment in Islamic sukuk	-	1,195,151	-	7,005,325	8,200,476
Other investments	-	1,664,540	108,406	-	1,772,946
Receivables and other assets	2,113,644	-	61,074	-	2,174,718
	59,284,711	2,859,691	169,480	19,234,327	81,548,209
Financial liabilities					
Customer deposits	-	-	-	63,447,070	63,447,070
Due to banks and other financial institutions	-	-	-	4,409,427	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	4,176,015
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	14,029	3,665,894	3,679,923
	-	-	14,029	79,450,949	79,464,978

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

57 Fair vales of financial instruments

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

57.1 Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statement approximate their fair values.

2011	**Carrying amount AED'000**	**Fair value AED'000**
Investments in Islamic Sukuk	**12,560,426**	**12,460,931**

2010 - restated	Carrying amount AED'000	Fair value AED'000
Investments in Islamic Sukuk	7,005,325	6,488,599

57.2 Valuation techniques and assumptions applied for the purposes of measuring fair value

Valuation of financial instruments recorded at fair value, is based on quoted market prices and valuation techniques.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair value of unilateral promise to buy/sell currencies and Islamic swaps is set out in note 37.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

57 Fair vales of financial instruments (continued)

57.3 Fair value measurements recognised in the consolidated statement of financial position

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities and investments in Islamic sukuk.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC Islamic derivative contracts. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes unquoted equity investments and Islamic financing instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

The table below summarises the fair value of financial instruments of the Bank's financial instruments according to fair value hierarchy.

At 31 December 2011

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	52,987	-	-	52,987
Islamic derivative financial assets held for trading	-	65,996	-	65,996
Fair value through OCI financial assets				
Quoted equities	533,774	-	-	533,774
Unquoted equities	-	-	1,447,628	1,447,628
Total	586,761	65,996	1,447,628	2,100,385
Financial liabilities at FVTPL				
Islamic derivative financial liabilities held for trading	-	23,897	-	23,897
Total	-	23,897	-	23,897

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

57 Fair vales of financial instruments (continued)

57.3 Fair value measurements recognised in the consolidated statement of financial position (continued)

At 31 December 2010 - restated

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	108,406	-	-	108.406
Islamic derivative financial assets held for trading	-	61.074	-	61.074
Available-for-sale financial assets				
Quoted equities	601.348	-	-	601.348
Investment in Islamic sukuk	1.195.151	-	-	1.195.151
Total	1,904,905	61,074	-	1,965,979
Financial liabilities at FVTPL				
Islamic derivative financial liabilities held for trading	-	14,029	-	14,029
Total	-	14,029	-	14,029

There were no transfers between Level 1 and 2 in the year.

Reconciliation of Level 3 fair value measurement of financial assets at 31 December 2011 is as follows:

	Total AED'000
Balance at the beginning of the year - restated	**-**
Classified from unquoted available for sale investments to FVTOCI	**1,063,192**
IFRS – 9 related adjustments	**(473,511)**
Gains or losses in other comprehensive income	**25,971**
Reclassification of investment in associates to financial assets designated as at FVTOCI	**841,817**
Purchases	**5,510**
Disposal / settlement	**(15,351)**
Balance at the end of the year	**1,447,628**

58 Risk management

58.1 Introduction

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

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

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

58.1.1 Risk management structure

The Board of Directors supported by Board Risk Management Committee is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Risk Management Committee

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

Risk Management Department

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

Asset and Liability Management Committee

Asset and Liability Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited periodically by the internal audit which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit comments the results of their assessments with management, and reports its findings and recommendations to the Audit Committee.

58 Risk management (continued)

58.1 Introduction (continued)

58.1.2 Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity and other risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

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

The Bank seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

58 Risk management (continued)

58.1 Introduction (continued)

58.1.3 Risk mitigation

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

The Bank seeks to mitigate its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is mitigated on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to mitigate liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

58.1.4 Risk concentration

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

58.2 Credit risk

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and calibrated to the Bank's internal rating scale. The models are housed with the Moody's Risk Analyst rating tool.

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

58 Risk management (continued)

58.2 Credit risk (continued)

Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

• Mortgages over residential and commercial properties;
• Corporate and financial guarantees;
• Charges over business assets such as premises, machinery, inventory and accounts receivable; and
• Charges over financial instruments such as financing securities and equities.

Islamic derivative financial instruments

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

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfill certain obligations to other parties. This exposes the Bank to a similar risk to financing and investing assets and these are mitigated by the same control processes and policies.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2011 AED'000	Gross maximum exposure 2010 AED'000 (Restated)
Balances with central banks	**11,457,902**	9,872,471
Due from banks and financial institutions	**3,043,096**	2,356,531
Islamic financing and investing assets	**55,517,325**	60,128,141
Investment in Islamic sukuk	**12,560,426**	8,200,476
Other investments	**2,034,389**	1,772,946
Receivables and other assets	**3,049,410**	2,076,134
	87,662,548	84,406,699
Contingent liabilities	**9,592,774**	11,309,713
Commitments	**9,073,076**	12,956,471
Total	**106,328,398**	108,672,883

58.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

At 31 December 2011

	Retail and business banking AED'000	**Wholesale banking AED'000**	**Total AED'000**
U.A.E.	**25,742,100**	**74,954,896**	**100,696,996**
GCC	-	**2,348,913**	**2,348,913**
South Asia	**1,348,936**	**904,869**	**2,253,805**
Europe	-	**119,629**	**119,629**
Africa	-	**139,223**	**139,223**
Other	-	**769,832**	**769,832**
Total	**27,091,036**	**79,237,362**	**106,328,398**

At 31 December 2010 - restated

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
U.A.E.	25,902,054	76,508,874	102,410,928
GCC	-	3,276,653	3,276,653
South Asia	394,739	1,768,559	2,163,298
Europe	-	436,667	436,667
Africa	-	183,662	183,662
Other	-	201,675	201,675
Total	26,296,793	82,376,090	108,672,883

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure	
	2011 AED'000	2010 AED'000 (Restated)
Financial Institutions	**32,528,389**	18,517,858
Government	**3,082,660**	11,170,038
Manufacturing and services	**13,615,585**	14,186,895
Real Estate	**26,631,306**	30,515,910
Home financing	**14,832,420**	14,519,700
Consumer financing	**10,283,752**	11,393,439
Trade	**5,354,286**	8,369,043
Total	**106,328,398**	108,672,883

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For commercial financing and investing facilities, charges over real estate properties, inventory and trade receivables,
- For retail financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for financings to their subsidiaries, but the benefits are not included in the above table.

58.2.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for investing and financing related financial position lines, based on the Bank's credit rating system.

At 31 December 2011

	Non-impaired exposures			
	Low and fair risk AED'000	Watch list AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	11,457,902	-	-	11,457,902
Due from banks and financial institutions	3,043,096	-	-	3,043,096
Islamic financing and investing assets	45,975,761	1,484,948	8,056,616	55,517,325
Investment in Islamic sukuks	12,560,426	-	-	12,560,426
Other investments	2,034,389	-	-	2,034,389
Receivables and other assets	2,959,325	27,751	62,334	3,049,410
	78,030,899	1,512,699	8,118,950	87,662,548
Contingent liabilities	9,592,774	-	-	9,592,774
Commitments	9,073,076	-	-	9,073,076
	18,665,850	-	-	18,665,850
Total	96,696,749	1,512,699	8,118,950	106,328,398

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.4 Credit quality per class of financial assets

At 31 December 2010 - restated

	Non-impaired exposures Low and fair risk AED'000	Watch list AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	9,872,471	-	-	9,872,471
Due from banks and financial institutions	2,356,531	-	-	2,356,531
Islamic financing and investing assets	52,781,311	2,334,608	5,012,222	60,128,141
Investment in Islamic sukuks	8,200,476	-	-	8,200,476
Other investments	1,772,946	-	-	1,772,946
Receivables and other assets	1,970,634	39,817	65,683	2,076,134
	76,954,369	2,374,425	5,077,905	84,406,699
Contingent liabilities	11,309,713	-	-	11,309,713
Commitments	12,956,471	-	-	12,956,471
	24,266,184	-	-	24,266,184
Total	101,220,553	2,374,425	5,077,905	108,672,883

Past due Islamic financing and investing assets include those that are only past due by a few days. An analysis of past due Islamic financing and investing assets, by age, is provided. The majority of the past due investing and financing assets are not considered to be impaired.

Credit risk exposure of the Bank's financial assets for each internal risk rating

	Moody's equivalent grades	**Total 2011 AED'000**	Total 2010 AED'000 (Restated)
Low risk			
Risk rating class 1	Aaa	**13,528,493**	12,249,828
Risk rating classes 2 and 3	Aa1-A3	**17,328,607**	12,640,826
Fair risk			
Risk rating class 4	Baa1-Baa3	**8,986,784**	19,237,170
Risk rating classes 5 and 6	Ba1-B3	**40,733,720**	40,972,960
Risk rating class 7	Caa1-Caa3	**16,158,030**	16,159,586
Watch list			
Risk rating class 8		**1,484,948**	2,334,608
Impaired			
Risk rating classes 9, 10 and 11		**8,107,816**	5,077,905
		106,328,398	108,672,883

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.4 Credit quality per class of financial assets (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

58.2.5 Ageing analysis of watch list and past due exposures that are not impaired investing and financing assets per class of financial assets

	Not yet due	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
As at 31 December 2011	**214,152**	**1,145,235**	**522,669**	**354,411**	**1,270,796**	**3,507,263**
As at 31 December 2010 - restated	-	1,127,951	843,421	461,031	2,334,608	4,767,011

See note 8 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

58.2.6 Impairment assessment

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.6 Impairment assessment (continued)

Collectively assessed allowances
Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances, letters of credit and guarantees are assessed and provision made in a similar manner as for Islamic financing and investing assets.

58.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with Central Banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

During 2007, the Bank issued a five year sukuk AED 2,822.25 million (USD 750 million) sukuk to diversify sources of funding to support business growth going forward.

During 2009, the Bank has also opted to re-categorise wakala finance from UAE Ministry of Finance to Tier 2 capital for seven years.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of investing and financing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	March	June	September	December
2011	**28%**	**31%**	**26%**	**21%**
2010 – restated	17%	19%	16%	18%

58.3.2 Funding approach

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

58.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.3 Non-derivative cash flows (continued)

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with Central banks	2,267,577	5,169,220	5,543,329	-	-	12,980,126
Due from banks and financial institutions	273,836	2,464,250	-	-	-	2,738,086
Islamic financing and investing assets	6,666,872	5,285,198	12,573,792	28,202,980	18,755,600	71,484,442
Investment in Islamic sukuk	13	1,968	12,710	12,837,538	1,599,923	14,452,152
Other investments	-	-	586,761	1,447,628	-	2,034,389
Receivables and other assets	42,416	88,028	2,900,414	62,634	5,844	3,099,336
Total assets	9,250,714	13,008,664	21,617,006	42,550,780	20,361,367	106,788,531
Customers' deposits	26,514,214	14,148,104	10,645,391	16,289,557	32,127	67,629,393
Due to banks and other financial institutions	183,309	437,772	1,773,434	2,206,762	-	4,601,277
Sukuk financing instruments	-	-	2,404,861	2,361,376	-	4,766,237
Medium term wakala finance	-	-	-	4,352,950	-	4,352,950
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	-	-	121,076	-	-	121,076
Total liabilities	28,280,679	14,759,767	15,756,361	26,179,131	38,350	85,014,288

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.3 Non-derivative cash flows (continued)

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	4,039,601	4,406,053	2,813,137	-	-	11,258,791
Due from banks and financial institutions	337,077	1,521,681	507,552	-	-	2,366,310
Islamic financing and investing assets	8,948,557	6,989,739	13,358,379	25,667,204	17,125,545	72,089,424
Investment in Islamic sukuk	14	-	247,550	7,691,630	1,701,642	9,640,836
Other investments	-	-	706,995	1,065,951	-	1,772,946
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,844	2,296,874
Total assets	13,385,761	12,998,417	19,726,849	34,481,123	18,833,031	99,425,181
Customers' deposits	21,252,483	22,396,508	8,414,400	12,001,973	1,267,146	65,332,510
Due to banks and other financial institutions	183,309	439,950	1,799,643	2,370,226	-	4,793,128
Sukuk financing instruments	-	50,797	152,391	4,785,580	-	4,988,768
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Total liabilities	22,870,257	23,153,682	12,044,356	19,605,224	6,070,401	83,743,920

Assets available to meet all of the liabilities and to cover outstanding commitments include cash, central bank balances, items in the course of collection, short term international murabahat with banks, investing and financing assets and other investments.

The Bank's Islamic derivatives will be settled on the following basis:

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic derivatives: comprise Islamic profit rate swaps.

The table below analyses the Bank's Islamic derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.4 Derivative cash flows

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	**1,924,071**	**5,561,998**	-	-	**7,486,069**
Islamic profit rate Swaps	-	-	**6,588,590**	**2,088,363**	**623,006**	**9,299,959**
	-	**1,924,071**	**12,150,588**	**2,088,363**	**623,006**	**16,786,028**

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	2,552,713	2,748,360	7,181	-	5,308,254
Islamic profit rate Swaps	-	-	-	9,324,101	671,550	9,995,651
	-	2,552,713	2,748,360	9,331,282	671,550	15,303,905

58.3.5 Off Balance Sheet items

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of Guarantee	-	**4,897,105**	**1,857,537**	**754,045**	**2,262**	**7,510,949**
- Letters of Credit	-	**1,288,386**	**589,034**	**204,405**	-	**2,081,825**
	-	**6,185,491**	**2,446,571**	**958,450**	**2,262**	**9,592,774**
Capital Commitments	-	-	**167,082**	**149,493**	-	**316,575**
Total	-	**6,185,491**	**2,613,653**	**1,107,943**	**2,262**	**9,909,349**

Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.5 Off Balance Sheet items (continued)

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	5,969,424	2,670,783	133,805	35	8,774,047
- Letters of credit	-	1,442,063	1,093,603	-	-	2,535,666
	-	7,411,487	3,764,386	133,805	35	11,309,713
Capital commitments	-	87,021	44,988	256,923	-	388,932
Total	-	7,498,508	3,809,374	390,728	35	11,698,645

58.4 Market risk

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

The Bank pays considerable attention to market risk. The Bank uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

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

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

58 Risk management (continued)

58.4 Market risk (continued)

58.4.1 Profit margin risk

The Bank is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Bank does not provide contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba by which the depositors and investment account holders agree to share the profit or loss made by the Bank's Mudaraba asset pool over a given period.

58.4.2 Profit rate risk

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

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

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	**Increase in basis points**	**Sensitivity of profit on Islamic financing and investing assets 2011 AED'000**	Sensitivity of profit on Islamic financing and investing assets 2010 AED'000 (Restated)
AED	**50**	**48,296**	51,252
USD	**50**	**23,648**	8,651

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2011

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	12,464,366	384,235	-	3,291	-	100,427	12,952,319
Due from banks and financial institutions	2,017,030	789,822	197,843	6,697	15,863	15,841	3,043,096
Islamic financing and investing assets, net	46,144,615	4,275,037	61,878	-	12,584	1,091,974	51,586,088
Investment in Islamic sukuk	5,180,940	6,894,889	-	-	-	484,597	12,560,426
Other investments	931,468	768,337	142,503	922	101,916	89,243	2,034,389
Receivables and other assets	2,774,121	138,862	-	-	12,439	72,789	2,998,211
Total	69,512,540	13,251,182	402,224	10,910	142,802	1,854,871	85,174,529
Financial Liabilities:							
Customers' deposits	58,165,539	4,930,075	22,987	32,162	161,086	1,459,468	64,771,317
Due to banks and other financial institutions	3,741,153	229,220	-	678	2,443	78,939	4,052,433
Sukuk financing instruments	1,100,000	3,073,983	-	-	-	-	4,173,983
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,977,249	358,433	167,594	594	2,375	37,110	3,543,355
Total	69,736,484	8,591,711	190,581	33,434	165,904	1,575,517	80,293,631
Net on balance sheet	(223,944)	4,659,471	211,643	(22,524)	(23,102)	279,354	4,880,898
Unilateral promise to buy/sell currencies	5,906,329	(5,727,195)	(147,315)	10,887	(42,305)	(401)	-
Currency position - long/(short)	5,682,385	(1,067,724)	64,328	(11,637)	(65,407)	278,953	4,880,898

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk (continued)

At 31 December 2010 - restated

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	9,408,777	331,038	-	-	-	132,656	9,872,471
Due from banks and financial institutions	1,057,498	720,804	215,173	197,213	85,627	80,216	2,356,531
Islamic financing and investing assets, net	51,743,422	4,393,839	17	-	17,176	1,016,613	57,171,067
Investment in Islamic sukuk	5,606,484	2,338,999	-	-	-	254,993	8,200,476
Other investments	273,700	1,075,729	181,453	8,300	159,008	74,756	1,772,946
Receivables and other assets	1,257,541	438,359	34,566	155	35,295	255,667	2,021,583
Total	69,347,422	9,298,768	431,209	205,668	297,106	1,814,901	81,395,074
Financial Liabilities:							
Customers' deposits	58,677,298	3,058,930	10,164	33,125	308,971	1,358,582	63,447,070
Due to banks and other financial institutions	3,388,460	802,553	23	171,776	5,870	40,745	4,409,427
Sukuk financing instruments	2,168,941	2,007,074	-	-	-	-	4,176,015
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,043,159	1,105,814	279,933	1,000	28,789	221,228	3,679,923
Total	70,030,401	6,974,371	290,120	205,901	343,630	1,620,555	79,464,978
Net on balance sheet	(682,979)	2,324,397	141,089	(233)	(46,524)	194,346	1,930,096
Unilateral promise to buy/sell currencies	4,285,814	(4,258,683)	(44,184)	440	17,771	(1,158)	-
Cumulative currency position – long/(short)	3,602,835	(1,934,286)	96,905	207	(28,753)	193,188	1,930,096

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant, including the effect of hedging instruments, on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	**Increase in currency rate in %**	**Effect on profit before tax 2011 AED'000**	Effect on profit before tax 2010 AED'000 (Restated)
USD	+2	**21,354**	38,686
GBP	+2	**233**	(4)
EURO	+2	**1,308**	575

Currency	**Decrease in currency rate in %**	**Effect on profit before tax 2011 AED'000**	Effect on profit before tax 2010 AED '000 (Restated)
USD	**-2**	**(21,354)**	(38,686)
GBP	**-2**	**(233)**	4
EURO	**-2**	**(1,308)**	(575)

58.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.4 Market risk (continued)

58.4.4 Foreign investment (continued)

Currency	Increase in currency rate in %	Effect on profit before tax 2011 AED'000	Effect on equity 2011 AED'000	Effect on profit before tax 2010 AED'000 (Restated)	Effect on equity 2010 AED'000 (Restated)
Pak Rupees	+5	**1,346**	**15,683**	-	13,629
Egypt Sterling	+5	**705**	**10,803**	1,878	9,454

Currency	Decrease in currency rate in %	Effect on profit before tax 2011 AED'000	Effect on Equity 2011 AED'000	Effect on profit before tax 2010 AED'000 (Restated)	Effect on Equity 2010 AED'000 (Restated)
Pak Rupees	-5	**(151)**	**(10,476)**	(1)	(12,335)
Egypt Sterling	-5	**(638)**	**(7,191)**	606	(8,582)

58.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through OCI at 31 December 2011 and as available-for-sale at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	% Change in Market indices	Effect on consolidated income statement 2011 AED'000	Effect on equity 2011 AED'000	Effect on consolidated income statement 2010 AED'000 (Restated)	Effect on equity 2010 AED'000 (Restated)
Dubai Financial Market	**±5%**	**317**	**13,594**	-	13,934
Abu Dhabi Exchange	**±5%**	**-**	**2,950**	-	3,035
Bahrain Stock Exchange	**±5%**	**-**	**2,547**	894	-
Saudi Stock Exchange	**±5%**	**-**	**3,805**	-	3,192
Doha Stock Exchange	**±5%**	**-**	**1,736**	-	1,293
Others	**±5%**	**-**	**1,965**	1,005	1,530

58 Risk management (continued)

58.5 Operational risk

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Bank has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Bank that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Bank is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the bank. The system houses three years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA and scenario based fraud risk self assessment modules.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

58.6 Capital management

58.6.1 Regulatory capital

The Bank's lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

58 Risk management (continued)

58.6 Capital management (continued)

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly / quarterly basis.

The U.A.E. Central Bank vide its circular No. 27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Further, from June 2010, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

58 Risk management (continued)

58.6 Capital management (continued)

58.6.1 Regulatory capital (continued)

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2011	2010
	AED'000	AED'000 (Restated)
Tier 1 Capital		
Share capital	**3,797,054**	3,797,054
Statutory reserves	**2,731,879**	2,731,879
Donated land reserve	**267,085**	276,139
General reserves	**2,350,000**	2,350,000
Retained earnings	**563,777**	368,723
Non-controlling interest	**971,427**	942,434
	10,681,222	10,466,229
Less:		
Goodwill and intangibles	**-**	(17,258)
Cumulative deferred exchange losses	**(105,560)**	(79,279)
	10,575,662	10,369,692
Tier 2 Capital		
Hedging reserves	**-**	4,795
Investment fair value reserve	**(831,849)**	(243,166)
Collective impairment	**842,735**	764,689
Medium term wakala finance	**3,752,543**	3,752,543
Deductions for associates	**(602,255)**	(596,950)
	3,161,174	3,681,911
Total capital base	**13,736,836**	14,051,603
Risk weighted assets		
Credit risk	**70,353,269**	73,395,388
Market risk	**1,174,630**	1,986,235
Operational risk	**3,745,404**	3,772,256
Total risk weighted assets	**75,273,303**	79,153,879
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets	**18.2%**	17.8%
Tier 1 capital to total risk weighted assets after deductions for associates	**13.6%**	12.7%

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

59 Prior year adjustment

The consolidated financial statements as at and for the year ended 31 December 2010 have been restated as a result of an adjustment in share of loss of an associate for the year ended 2010 in Deyaar P.J.S.C. The associate accounted for an impairment charge for goodwill in its financial statements for the year ended 31 December 2011, that is reflected as prior year adjustment, which resulted in a restatement for the year ended 31 December 2010. As a result, the Bank has also restated its share of loss from associates in prior year as follows:

	As previously reported AED'000	Restatement AED'000	As restated AED'000
Consolidated financial position			
Investment in associates as at 31 December 2010	**3,430,274**	**(253,370)**	**3,176,904**
Consolidated income statement			
Share of loss from associates for the year ended 31 December 2010	**(846,521)**	**(253,370)**	**(1,099,891)**
Consolidated statement of changes in equity			
Retained earnings as at 31 December 2010	**748,428**	**(253,370)**	**495,058**

At 31 December 2010, basic and diluted earnings per share attributable to the equity holders of the parent decreased from AED 0.21 per share to AED 0.15 per share.

The restatement does not have an impact on the opening reserves of 2010 or on 2009 consolidated financial statements. The consolidated financial position at 1 January 2010 is, therefore, not included in these consolidated financial statements.

60 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 1 February 2012.

Deloitte.

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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 and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries (the "Bank") as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

The accompanying consolidated financial statements have been prepared for submission to the United Arab Emirates Central Bank and are yet to be approved by the Central Bank. These consolidated financial statements should not be published until such approval is obtained.

Deloitte & Touche (M.E.)

Saba Y. Sindaha
Registration Number 410
8 March 2011

Consolidated statement of financial position as at 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Cash and balances with Central Banks	6	11,247,225	11,611,570
Due from banks and financial institutions	7	2,356,631	2,557,258
Islamic financing and investing assets, net	8	57,171,067	49,924,941
Investments in Islamic sukuk	9	8,200,476	9,290,797
Other investments	10	1,772,946	1,925,950
Investments in associates	11	3,430,274	4,295,168
Properties under construction	12	524,165	388,648
Properties held for sale	13	544,959	157,269
Investment properties	14	1,922,911	1,996,288
Receivables and other assets	15	2,296,873	1,464,071
Property, plant and equipment	16	653,086	657,795
Goodwill	17	17,258	34,516
Total assets		90,137,771	84,304,271
LIABILITIES			
Customers' deposits	21	63,447,070	64,195,503
Due to banks and financial institutions	22	4,409,427	1,449,051
Sukuk financing instruments	23	4,176,015	2,415,034
Medium term wakala finance	24	3,752,543	3,752,543
Payables and other liabilities	25	3,679,923	3,370,804
Accrued zakat	28	146,336	140,536
Total liabilities		79,611,314	75,323,471
EQUITY			
Share capital	29	3,797,054	3,617,505
Treasury shares	30	-	(70,901)
Statutory reserve	31	2,731,879	2,731,879
Donated land reserve	31	276,139	276,139
General reserve	31	2,350,000	2,350,000
Exchange translation reserve	31	(91,541)	(77,841)
Cumulative changes in fair value	32	(243,166)	(723,713)
Hedging reserve	34	10,656	50,600
Retained earnings		748,428	822,222
Equity attributable to equity holders of the Parent		9,579,449	8,975,890
Non-controlling interest	36	947,008	4,910
Total equity		10,526,457	8,980,800
Total liabilities and equity		90,137,771	84,304,271
Contingent liabilities and commitments	37	24,266,184	25,638,030

H. E. Mohammad A. Al Shaibani
Chairman

Sheikh Khalid Bin Zayed Al Nehyan
Deputy Chairman

Abdulla Ali Al Hamli
Chief Executive Officer

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

Consolidated income statement for the year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
INCOME			
Income from Islamic financing and investing assets	39	3,221,695	3,322,857
Income from Islamic sukuk		376,260	703,539
Income from International murabahats and wakala, short term	40	36,313	51,478
Gain / (loss) from other investments	41	136,163	(18,935)
Commissions, fees and foreign exchange income	42	687,030	752,169
Income from investment properties	43	90,166	78,300
Income from sale of properties held for sale	44	14,498	997
Gain on buy back of sukuk financing instrument	23	6,418	38,712
Other income	45	140,006	186,453
Total income		4,708,549	5,115,570
EXPENSES			
Personnel expenses	46	(817,819)	(813,202)
General and administrative expenses	47	(542,943)	(524,760)
Depreciation of investment properties	14	(22,669)	(18,722)
Impairment loss on financial assets, net	48	(801,055)	(809,344)
Impairment loss on non-financial assets, net	49	(62,824)	(8,565)
Total expenses		(2,247,310)	(2,174,593)
Profit before depositors' share and tax		2,461,239	2,940,977
Depositors' share of profits	50	(1,435,631)	(1,739,197)
Operating profit for the year		1,025,608	1,201,780
Share of (loss)/profit from associates	11	(846,521)	17,345
Gain on acquiring controlling interest	20	637,038	-
Profit for the year before tax		816,125	1,219,125
Income tax expense	26	(3,492)	(6,844)
Profit for the year		812,633	1,212,281
Attributable to:			
Equity holders of the parent		806,523	1,207,491
Non-controlling interest		6,110	4,790
Profit for the year		812,633	1,212,281
Basic and diluted earning per share attributable to the equity holders of the parent (AED)	51	AED 0.21	AED 0.32

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

Consolidated statement of comprehensive income for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Profit for the year	**812,633**	1,212,281
Other comprehensive income		
Net gain on available for sale investments during the year	**606,140**	165,310
Reclassification of realised gain on disposal of available for sale of investments to profit or loss	**(125,593)**	(309)
Currency translation differences of foreign operations	**(13,700)**	(18,161)
Net loss on cash flow hedge	**-**	(15,592)
Reclassification of cash flow hedging reserve to profit or loss	**(39,944)**	(45,219)
Directors' remuneration	**(4,800)**	(4,800)
Other comprehensive income for the year	**422,103**	81,229
Total comprehensive income for the year	**1,234,736**	1,293,510
Attributable to:		
Equity holders of the parent	**1,228,626**	1,288,720
Non-controlling interest	**6,110**	4,790
	1,234,736	1,293,510

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

Consolidated statement of changes in equity for the year ended 31 December 2010 (continued)

	Share capital	Treasury shares	Total reserves	Cumulative changes in fair value	Hedging reserve	Retained earnings	Attributable to equity holders of the parent	Non-controlling interest	Total Equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2009 - restated	3,445,400	(3,307)	5,198,338	(888,714)	111,411	886,143	8,749,271	120	8,749,391
Profit for the year	-	-	-	-	-	1,207,491	1,207,491	4,790	1,212,281
Other comprehensive income for the year	-	-	(18,161)	165,001	(60,811)	(4,800)	81,229	-	81,229
Total comprehensive income for the year	-	-	(18,161)	165,001	(60,811)	1,202,691	1,288,720	4,790	1,293,510
Issuance of bonus shares	172,105	-	-	-	-	(172,105)	-	-	-
Dividends paid	-	-	-	-	-	(860,523)	(860,523)	-	(860,523)
Share based payments vested	-	-	-	-	-	5,444	5,444	-	5,444
Transfer to general reserve	-	-	100,000	-	-	(100,000)	-	-	-
Shares acquired	-	(67,594)	-	-	-	-	(67,594)	-	(67,594)
Accrued zakat (note 28)	-	-	-	-	-	(139,428)	(139,428)	-	(139,428)
Balance at 1 January 2010	**3,617,505**	**(70,901)**	**5,280,177**	**(723,713)**	**50,600**	**822,222**	**8,975,890**	**4,910**	**8,980,800**
Profit for the year	-	-	-	-	-	806,523	806,523	6,110	812,633
Other comprehensive income for the year	-	-	(13,700)	480,547	(39,944)	(4,800)	422,103	-	422,103
Total comprehensive income for the year	-	-	(13,700)	480,547	(39,944)	801,723	1,228,626	6,110	1,234,736
Additional non-controlling interest arising on acquisition of a subsidiary	-	-	-	-	-	-	-	940,300	940,300
Issuance of bonus shares	179,549	-	-	-	-	(179,549)	-	-	-
Dividends paid	-	-	-	-	-	(538,648)	(538,648)	(4,312)	(542,960)
Treasury shares disposed	-	70,901	-	-	-	(11,473)	59,428	-	59,428
Share based payments vested	-	-	-	-	-	479	479	-	479
Accrued zakat (note 28)	-	-	-	-	-	(146,326)	(146,326)	-	(146,326)
Balance at 31 December 2010	**3,797,054**	**-**	**5,266,477**	**(243,166)**	**10,656**	**748,428**	**9,579,449**	**947,008**	**10,526,457**

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

Consolidated statement of cash flows for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Cash flows from operating activities		
Profit for the year before tax	**816,125**	1,219,125
Adjustments for:		
Gain on acquiring controlling interest	**(637,038)**	-
Revaluation of investments at fair value through profit or loss	**13,182**	53,562
Dividend income	**(24,303)**	(39,646)
Gain on sale of investment properties	**(18,001)**	(2,691)
Cost of shared based payments	**479**	5,444
Net impairment loss on financial assets	**801,055**	809,344
Net impairment loss on non-financial assets	**62,824**	8,565
Share of loss / (profit) from associates	**846,521**	(17,345)
Gain on derivative assets	**-**	(102,164)
Depreciation of investment properties	**22,669**	18,722
Depreciation of property, plant and equipment	**122,855**	116,008
Loss on disposal of associates	**-**	4,703
Gain on disposal of property, plant and equipment	**(20)**	-
Gain on disposal of available for sale investments	**(125,593)**	-
Loss on disposal of investments at fair value through profit or loss	**1,941**	6,841
Gain on buy back of sukuk financial instruments	**(6,418)**	(40,696)
Amortisation of hedging reserve	**(39,943)**	(45,219)
Gain on disposal of properties held for sale	**(14,498)**	(997)
Amortisation of fair value of Islamic Financing and investing activities	**5,473**	-
Write off of property, plant and equipment	**4,099**	27,950
Gain on shares acquired	**-**	(67,594)
Operating cash flow before changes in operating assets and liabilities	**1,831,409**	1,953,912
Decrease in Islamic financing and investing assets	**1,671,570**	2,017,380
(Increase) /decrease in receivables and other assets	**(733,760)**	311,513
(Decrease)/increase in customers' deposits	**(2,227,113)**	1,619,369
Decrease in due to banks and financial institutions	**(923,002)**	(1,882,050)
Decrease in payables and other liabilities	**(4,488)**	(83,528)
Accrued zakat paid	**(140,536)**	(141,825)
Cash (used in)/ generated from operating activities	**(525,920)**	3,794,771
Tax paid	**(1,414)**	(4,436)
Net cash (used in)/ generated from operating activities	**(527,334)**	3,790,335

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

Consolidated statement of cash flows
for the year ended 31 December 2010 (continued)

	2010 AED'000	2009 AED'000
Cash flows from investing activities		
Proceeds from disposal of investments in Islamic sukuk	**864,585**	1,894,378
Proceeds from disposal of investments at fair value through profit or loss	**4,511**	133,163
Proceeds from disposal of available for sale investments	**16,166**	117,604
Purchase of available for sale investments	**(42,343)**	-
Purchase of investments at fair value through profit or loss	**-**	(280)
Proceeds from disposal of investment properties	**22,204**	5,789
Additions to properties under construction	**(135,517)**	(130,818)
Additions to properties held for sale	**(29,747)**	(701)
Additions to investment properties	**(8,757)**	(15,281)
Net cash outflow on acquisition of controlling interest	**(81,851)**	(38,567)
Dividend income	**24,302**	39,646
Payments for investments in associates	**(2,655)**	(107,183)
Income from investment in associates	**8,791**	-
Purchase of property, plant and equipment	**(93,303)**	(147,292)
Proceeds from disposal of property, plant and equipment	**1,402**	12,160
Proceeds from disposal of properties held for sale	**31,067**	13,461
Movement in deposits and International murabahats with original maturities above three months	**(3,031,239)**	(88,836)
Exchange differences arising from translation of foreign operations	**(23,562)**	(48,288)
Net cash (used in) / generated from investing activities	**(2,475,946)**	1,638,955
Cash flow from financing activities		
Dividends paid	**(538,648)**	(860,523)
Buy back of sukuk financing instruments	**(51,542)**	(299,020)
Non-controlling interests	**(2,841)**	-
Net cash used in financing activities	**(593,031)**	(1,159,543)
(Decrease)/increase in cash and cash equivalents	**(3,596,311)**	4,269,747
Cash and cash equivalents at the beginning of the year	**14,079,992**	9,810,245
Cash and cash equivalents at the end of the year (Note 52)	**10,483,681**	14,079,992

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

**Notes to the consolidated financial statements
for the year ended 31 December 2010**

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.

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

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

The Bank is registered as a P.J.S.C. in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended).

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

2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years)

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these consolidated financial statements. Details of other new and revised IFRSs adopted in these consolidated financial statements that have had no material effect on the financial statements are set out in section 2.2.

• IFRS 3 (revised in 2008) *Business Combination*	IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

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

• Amendments to IFRS 1 *First-time Adoption of IFRS* – Additional Exemption for first-time adopters.	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
• Amendments to IFRS 2 *Share-based payment – Bank Cash-settled Share-based Payment Transactions*	The amendments clarify the scope of IFRS 2, as well as the accounting for the Bank cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
• Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Bank is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Bank will retain a non-controlling interest in the subsidiary after the sale.

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

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

• Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.
• Amendments to IAS 1 *Presentation of financial statements* (as part of improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
• Amendments to IAS 7 *Statement of Cash Flows* (as part of *Improvements to IFRSs* issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the balance sheet can be classified as investing activities in the statement of cash flows.
• Amendment to IAS 39 *Financial Instruments : Recognition and Measurement* – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives*	Relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category
• IFRIC 17 *Distributions of Non-cash Assets to Owners*	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
• IFRIC 18 *Transfers of Assets from Customers*	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue*.
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	The Interpretation removes the restriction in terms of which entity in the group to hold the hedging instrument, subsequent to the amendment per IFRIC 16, any entity in the group can hold the hedging instrument that qualifies as net investment hedge in a foreign operation.

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

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

• Improvements to IFRSs (2009)	Except for the amendments to IFRS 3 described earlier in section 2.1, the application of improvements to IFRS issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

2.3 New and revised IFRSs is in issue but not yet effective.

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

<u>New and revised IFRSs</u>	**Effective for annual periods** <u>**beginning on or after**</u>
• Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	1 July 2010
• Amendments to IFRS 7 *Financial Instruments: Disclosures*, relating to Disclosures on Transfers of Financial Assets	1 July 2011
• IFRS 9 *Financial Instruments* (as amended in 2010)	1 January 2013
• IAS 24 *Related Party Disclosures* (revised in 2009)	1 January 2011
• Amendments to IAS 32 *Financial Instruments: Presentation*, relating to Classification of Rights Issues	1 February 2010
• Amendments to IFRIC 14 relating to *Prepayments of a Minimum Funding Requirement*	1 January 2011
• IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• *Improvements to IFRSs* issued in 2010 covering amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13	1 January 2011, except IFRS 3 and IAS 27 which are effective 1 July 2010

Management anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

3 Definitions

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

3.1 Murabahat

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

3.2 Salam finance

An agreement whereby the Bank pays full price of a commodity in advance, whereas the customer delivers the goods with certain specifications and certain quantity on the agreed future date(s) (i.e. purchase of commodity for deferred delivery by the customer in exchange for upfront payment of the full purchase price by the purchaser).

3.3 Istisna'a

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

3.4 Ijarah

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

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

3.6 Mudaraba

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

3.7 Wakala

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

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 (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No.2624/2008 dated 12 October 2008, the Bank's exposure in Cash and balances with Central Banks, Balances and deposits with banks and other financial institutions, International murabahat with financial institutions, short term and other investments outside the U.A.E. have been presented under the respective explanatory notes to the consolidated financial statements.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The significant accounting policies are set down below.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as "the Bank") as set out in Note 19. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies 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.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Bank's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

4 Significant accounting policies (continued)

4.3 Basis of consolidation (continued)

When the Bank loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

4.4 Due from banks and financial institutions

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

International murabahat with financial institutions, short term are stated at cost less provisions for impairment and deferred profits.

4.5 Islamic financing and investing assets

Islamic financing and investing assets consist of murabahat receivables, salam finacing, mudaraba, musharaka, wakala arrangements, istisna'a and ijarah contracts and they are measured at amortised cost less any amounts written off and provision for impairment losses. Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Provision for impairment is made for Islamic financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Islamic financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Losses expected from future events are not recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

4.6 Islamic financing and investing assets impairment

4.6.1 Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

a) Principal and profit are not serviced as per contractual terms; and
b) When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

4 Significant accounting policies (continued)

4.6 Islamic financing and investing assets impairment (continued)

4.6.1 Individually assessed Islamic financing and investing assets (continued)

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows discounted at the Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing assets' observable market price or fair value of the collaterals if the Islamic financing and investing assets is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing assets' carrying value and its present impaired value.

4.6.2 Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

4.6.3 Incurred but not yet identified

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or Islamic financing and investing assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the consolidated balance sheet 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 loans are removed from the group of the customer and assessed on an individual basis for impairment.

4.6.4 Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the investing and financing asset impairment provision account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

4.6.5 Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continue to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the Islamic financing and investing assets to be moved to performing category.

4.7 Investment in Islamic Sukuk

4.7.1 Held to maturity

Investments in Islamic Sukuk which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments in Islamic Sukuk are carried at amortised cost, using effective profit rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective profit rate method.

If there is objective evidence that an impairment on held to maturity investments in Islamic Sukuk carried at amortised cost has been incurred, the amount of impairment loss recognised is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective profit rate, with the resulting impairment loss, if any, in the consolidated income statement.

4.7.2 Available for sale investments

Investments in Islamic Sukuk not classified as "held to maturity" are classified as "available for sale" and are stated at fair value.

Available for sale investments in Islamic Sukuk are initially recognised at fair value plus any directly attributable transaction cost and are subsequently measured at fair value.

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and recorded in the cumulative changes in fair value with the exception of impairment losses, profit calculated using the effective yield method and foreign exchange gains and losses on monetary assets,.which are recognised directly in the consolidated income statement.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is reclassified to consolidated income statement.

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

4 Significant accounting policies (continued)

4.8 Other investments

4.8.1 Investments carried at fair value through profit or loss

Financial assets are classified at fair value through profit or loss ("FVTPL") where the financial assets is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short- term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss arising on re-measurement in the consolidated income statement.

4.8.2 Available for sale investments

Investments not classified as "FVTPL" are classified as "available for sale" and are stated at fair value.

If available for sale investment is impaired, the difference between the acquisition cost and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity.

4.8.3 Reclassification of other investments

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

4.8.4 Derecognition of other investments

The Bank derecognises an investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

4 Significant accounting policies (continued)

4.9 Fair values

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

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value.

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

The fair value of unilateral promise to buy/sell currencies is calculated by reference to foreign exchange rates with similar maturities.

4.10 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. After the application of the equity method, the Bank determines whether it is necessary to recognise any impairment loss on the Bank's investment in its associates. The Bank determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the consolidated income statement.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

4.11 Fund management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity.

4 Significant accounting policies (continued)

4.12 Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are recognised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are recognised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, cost in respect to unsold properties is eliminated from properties under construction and transferred to properties held for sale.

4.13 Properties held for sale

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

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

4.14 Cost of sale of property

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

4.15 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

4 Significant accounting policies (continued)

4.16 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

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

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated financial statements.

4.17 Impairment of tangible and intangible assets excluding goodwill

At each consolidated balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4 Significant accounting policies (continued)

4.18 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Bank's policies.

4.19 Investments in joint ventures

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

The reporting dates of the joint venture and the Bank are identical and the joint venture's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

4.20 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal Banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

4 Significant accounting policies (continued)

4.20 Business combination

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

4 Significant accounting policies (continued)

4.21 Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.22 Customers' deposits, due to banks and financial institutions and Medium term wakala finance

Customers' deposits, due to banks and financial institutions and Medium term wakala finance are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

4.23 Sukuk financing instruments

4.23.1 Non-convertible sukuk

Sukuk financing instruments are initially measured at fair value, net of transaction costs, and then are subsequently measured at amortised cost using the effective profit rate method, with profit expense recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4.23.2 Convertible sukuk

Convertible Sukuk that can be settled at the option of the issuer are recorded as compound financial instruments. The equity component of the convertible sukuk is calculated as the excess of the issue proceeds over the present value of the future profit and principal payments, discounted at the market rate of profit applicable to similar liabilities that do not have a conversion option.

4 Significant accounting policies (continued)

4.24 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective profit method, with depositors' share of profit recognised on an effective yield basis.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating depositors' share of profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

4.25 Derecognition of financial assets and financial liabilities

4.25.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised on where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4.25.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same financial institution on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

4.26 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 2 of 2000.

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

4 Significant accounting policies (continued)

4.27 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective countries in which the Bank operates.

Deferred income taxation is provided using the liability method on all temporary differences at the consolidated balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the consolidated balance sheet.

The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

4.28 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:

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

4.29 Allocation of profit

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

4.30 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4 Significant accounting policies (continued)

4.30 Provisions and contingent liabilities (continued)

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

4.31 Share capital – equity instruments

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity instrument if, and only if, below both conditions are met:

(a) The instrument includes no contractual obligation:
   - (i) to deliver cash or another financial asset to another entity; or
   - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:
   - (i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
   - (ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

4.32 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated balance sheet 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)

4.33 Financial guarantees

Financial guarantees are undertaking/commitment that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

4.34 Acceptances

Acceptances have been considered within the scope of IAS 39 Financial Instruments: Recognition and Measurement and are recognised as financial liability in the consolidated balance sheet with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.35 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic swap.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. 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.

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 derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether 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 derivatives held for trading are recognised in consolidated income statement under net gain on dealing in derivatives.

4 Significant accounting policies (continued)

4.35 Derivative financial instruments (continued)

When 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 derivatives designated as hedging instruments in a fair value, cash flow or net investment hedges provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in 'Net profit income'.

4.35.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

4.35.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

4 Significant accounting policies (continued)

4.35 Derivative financial instruments (continued)

4.35.3 Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

4.36 Unilateral promise to buy/sell currencies (the Promise)

The promises are stated at fair value. The fair value of a promise is the equivalent of the unrealised gain or loss from marking to market the promise using prevailing market rates. The promise with positive market value (unrealised gain) are included in other assets and the promise with negative market value (unrealised losses) are included in other liabilities in the consolidated balance sheet.

4.37 Revenue recognition

4.37.1 Income from investing and financing assets

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit rate method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective profit rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

4.37.2 Murabahat

Murabahat income is recognised on an effective profit rate basis over the period of the contract based on the principal amounts outstanding.

4.37.3 Salam finance

Salam income is recognised on effective profit rate basis over the period of contract based on salam capital outstanding.

4.37.4 Istisna'a

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

4 Significant accounting policies (continued)

4.37 Revenue recognition (continued)

4.37.5 Ijarah

Ijarah income is recognised on an effective profit rate basis over the Ijarah term.

4.37.6 Musharaka

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

4.36.7 Mudaraba

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

4.37.8 Sukuk

Income is accounted for on a time-apportioned basis over the term of the Sukuk.

4.37.9 Fee and commission income

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

4.37.10 Dividends

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

4.37.11 Sale of property

Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Bank has transferred to the buyer the significant risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

4.38 Forfeited income

According to the Fatwa and Sharia'a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities.

4.39 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

4 Significant accounting policies (continued)

4.40 Operating lease

4.40.1 The Bank as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4.40.2 The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4.41 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated balance sheet.

4.42 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the consolidated income statement.

4 Significant accounting policies (continued)

4.42 Foreign currencies (continued)

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the consolidated balance sheet date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange translation reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.43 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated balance sheet date is recognised in the consolidated income statement for assets classified as held for trading and in other comprehensive income for assets classified as available for sale.

4.44 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated balance sheet 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)

4.45 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 55 on Business Segment reporting.

5 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 4, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of 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 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 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.1.2 Collectively assessed Islamic financing and investing assets (continued)

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 balance sheet date.

5.2 Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available, reliable fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

5.3 Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

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

5.4 Impairment of associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

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

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5.5 Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

6 Cash and balances with Central Banks

	2010 AED'000	2009 AED'000
Cash in hand	1,374,754	1,491,173
Balances with Central Banks:		
- Current accounts	2,664,847	6,376,863
- Reserve requirements	3,905,838	3,743,534
- International murabahat with Central Bank – short term	3,301,786	-
	11,247,225	11,611,570

The reserve requirements are kept with the Central Banks of U.A.E. and Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective Central Banks. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives.

Cash and balances with Central Banks by geography is as follows:

	2010 AED'000	2009 AED'000
Within the U.A.E.	11,114,569	11,486,195
Outside the U.A.E.	132,656	125,375
	11,247,225	11,611,570

7 Due from banks and financial institutions

	2010 AED'000	2009 AED'000
Current accounts	336,541	666,321
Investment deposits	751,880	685,978
International murabahat - short term	1,268,110	1,204,959
	2,356,531	2,557,258

Balances and deposits with banks and financial institutions by geography is as follows:

	2010 AED'000	2009 AED'000
Within the U.A.E.	2,019,539	800,040
Outside the U.A.E.	336,992	1,757,218
	2,356,531	2,557,258

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

8 Islamic financing and investing assets, net

	2010 AED'000	2009 AED'000
Commodities murabahat	**5,495,201**	6,553,773
International murabahat - long term	**1,661,426**	1,636,047
Vehicles murabahat	**6,546,265**	6,589,053
Real estate murabahat	**5,187,596**	5,391,693
Total murabahat	**18,890,488**	20,170,566
Istisna'a	**7,289,783**	8,362,108
Home finance ijara	**12,225,198**	3,006,098
Other ijaras	**10,032,307**	8,577,749
Salam	**1,399,132**	-
Islamic credit cards	**431,953**	392,014
	50,268,861	40,508,535
Less: Deferred income	**(3,834,249)**	(4,414,648)
Contractors and consultants' istisna'a contracts	**(524,002)**	(1,147,768)
Provisions for impairment	**(2,824,393)**	(1,845,257)
	43,086,217	33,100,862
Investing Assets		
Musharakat	**9,717,533**	10,524,280
Mudaraba	**3,709,791**	5,456,053
Wakalat	**790,207**	946,791
	14,217,531	16,927,124
Less: Provision for impairment	**(132,681)**	(103,045)
	14,084,850	16,824,079
Net Islamic financing and investing assets	**57,171,067**	49,924,941

8 Islamic financing and investing assets, net (continued)

Islamic financing and investing assets by industry group and geography are as follows:

	2010			2009		
	U.A.E. AED'000	International AED'000	Total AED'000	U.A.E. AED'000	International AED'000	Total AED'000
Economic sector						
Financial institutions	3,014,911	413,706	3,428,617	4,125,258	517,834	4,643,092
Real estate	17,478,834	434	17,479,268	17,835,629	110,263	17,945,892
Trade	2,755,050	65,971	2,821,021	3,456,548	102,377	3,558,925
Government	4,843,577	17,156	4,860,733	4,182,292	-	4,182,292
Manufacturing and services	8,242,261	1,141,821	9,384,082	9,096,360	1,147,366	10,243,726
Consumer home finance	12,578,399	-	12,578,399	3,022,692	-	3,022,692
Consumer financing	9,090,735	485,286	9,576,021	7,804,476	472,148	8,276,624
Total	58,003,767	2,124,374	60,128,141	49,523,255	2,349,988	51,873,243
Less: Provision for impairment			(2,957,074)			(1,948,302)
Total			57,171,067			49,924,941

Provisions for impairment

Movements in the provision for impairment are as follows:

	Financing AED'000	Investing AED'000	Total AED'000
2010			
Balance, beginning of the year	1,845,257	103,045	1,948,302
Acquisition of controlling interest	364,073	-	364,073
Charge for the year	834,493	94,470	928,963
Release to the profit or loss	(217,206)	(58,321)	(275,527)
Write-offs during the year	(2,135)	(6,260)	(8,395)
Others	(89)	(253)	(342)
Balance, end of the year	2,824,393	132,681	2,957,074
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed provision for impairment	4,667,226	344,955	5,012,222
2009			
Balance, beginning of the year	1,186,864	58,337	1,245,201
Charge for the year	784,803	72,452	857,255
Release to the profit or loss	(113,519)	(27,046)	(140,565)
Write-offs during the year	(12,861)	-	(12,861)
Others	(30)	(698)	(728)
Balance, end of the year	1,845,257	103,045	1,948,302
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed provision for impairment	2,922,752	184,253	3,107,005

8 Islamic financing and investing assets, net (continued)

Collaterals

The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with investing and financing assets. The collaterals include lien on savings and investment deposits, financial guarantees, equities, properties and other fixed assets. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset based financing, is as follows:

	2010 AED'000	2009 AED'000
Corporate and financial guarantees	**53,863,873**	49,074,130
Property and Mortgages	**32,268,139**	29,937,517
Deposits	**801,921**	1,259,473
Vehicles and machineries	**463,720**	163,481

The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2010 amounts to AED 3.90 billion (2009: AED 2.75 billion).

During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 8.80 million (2009: AED 6.52 million), which has been adjusted against the outstanding receivables.

9 Investments in Islamic Sukuk

Investments in Islamic sukuk by geographical area are as follows:

	2010 AED'000	2009 AED'000
Held to maturity – at amortised cost		
Within U.A.E.	**6,567,730**	7,736,096
Other G.C.C. Countries	**136,705**	346,161
Rest of the world	**300,890**	238,857
	7,005,325	8,321,114
Available for sale		
Within U.A.E.	**1,195,151**	969,683
	1,195,151	969,683
Total	**8,200,476**	9,290,797

Held to maturity investments in Islamic sukuk are measured at amortised cost and available for sale investments in Islamic sukuk after initial recognition are re-measured at fair value with changes in fair value recognised in other comprehensive income.

10 Other investments

	2010 AED'000	2009 AED'000
Investments carried at fair value through profit or loss	**108,406**	128,561
Available for sale investments	**1,664,540**	1,797,389
	1,772,946	1,925,950

	31 December 2010			
	U.A.E. AED'000	**Other G.C.C. Countries AED'000**	**Rest of World AED'000**	**Total AED'000**
Investments carried at fair value through profit or loss				
Equity instruments	**1,013**	**78,185**	**29,208**	**108,406**
Available for sale investments				
Quoted:				
Equity instruments	**443,654**	**122,526**	**35,168**	**601,348**
Unquoted:				
Equity instruments	**223,148**	**124,430**	**191,624**	**539,202**
Investment funds	**157,855**	**9,182**	**356,953**	**523,990**
	381,003	**133,612**	**548,577**	**1,063,192**
Available for sale investments	**824,657**	**256,138**	**583,745**	**1,664,540**
Total	**825,670**	**334,323**	**612,953**	**1,772,946**

10 Other investments (continued)

	31 December 2009			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Equity instruments	1,212	108,192	19,157	128,561
Available for sale investments				
Quoted:				
Equity instruments *	603,650	95,909	40,255	739,814
Unquoted:				
Equity instruments	212,863	120,527	192,627	526,017
Investment funds	142,968	-	388,590	531,558
	355,831	120,527	581,217	1,057,575
Available for sale investments	959,481	216,436	621,472	1,797,389
Total	960,693	324,628	640,629	1,925,950

Industry distribution of other investments is as follows:

	2010 AED'000	2009 AED'000
Banks and other financial institutions	**889,542**	853,107
Real estate	**338,070**	507,213
Manufacturing and others	**545,334**	565,630
	1,772,946	1,925,950

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of other methods suitable for arriving at a reliable fair value.

The available for sale investments were assessed for indicators of impairment at the end of reporting period. The available for sale investments, quoted and unquoted investments identified where reporting fair value of investment were below the cost for significant or prolonged period, accordingly investments have been impaired. The impaired loss amounting to AED 136.3 million (2009: AED 92.7 million) recognised in the consolidated income statements (refer note 48).

During 2008, the held for trading investments were reclassified to available for sale investments. The reclassification was made in accordance with the amendments to IAS 39 (Financial Instruments: Recognisition and Measurement) issued on 12 October 2008 with respect to reclassification of financial assets. The fair value at the date of reclassification of investments was AED 155.6 million. As at 31 December 2010, reclassified investments amounted to AED 39.3 million (2009: AED 56.9 million). During 2010, the reclassified investments amounting to AED 8.7 million (2009: AED 8.5 million) were disposed.

10 Other investments (continued)

* The available for sale investments as at 31 December 2009 include an investment of AED 205,652,700 which was suspended from trading on the local stock market in November 2008. The investment is valued at the last traded price before its suspension on the local stock market.

11 Investments in associates

11.1 List of associates

Details of the Bank's associates at the end of the reporting period are as follows:

	Associates	Principal activity	Country of incorporation	Percentage of equity 2010	Percentage of equity 2009
1.	Bank of Khartoum	Banking	Sudan	28.4%	28.4 %
2.	Jordan Dubai Islamic Bank	Banking	Jordan	20.8%	20.8%
3.	Bosnia International Bank	Banking	Bosnia	27.3%	27.3%
4.	Faisal Islamic Bank of Kibris	Banking	TRNC	31.0%	31.0%
5.	Saba Islamic Bank	Banking	Yemen	18.5%	18.5%
6.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.	43.0%	43.0%
7.	Etisalat International Pakistan Ltd.	Investments	U.A.E.	10.0%	10.0%
8.	BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	13.6%	13.6%
9.	Liquidity Management Center (B.S.C.)	Brokers	Bahrain	25.0%	25.0%
10.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	16.6%	16.6%
11.	MESC Investment Company	Investments	Jordan	40.0%	40.0%
12.	Omega Engineering L.L.C.	Mechanical, electrical & plumbing	U.A.E.	23.7%	23.7%
13.	Beirut Bay SAL	Property Development	Lebanon	43.0%	43.0%
14.	Deyaar (UK) Ltd.	Representative Office of Deyaar	UK	43.0%	43.0%
15.	Deyaar Cayman Ltd.	Investment holding Company	Cayman Islands	43.0%	43.0%

Although the Bank's interest in the equity of the entities listed as 5, 7, 8 and 10 is less than 20%, the Bank exercises significant influence over these entities. These investments have, accordingly, been accounted for as "investments in associates".

11.2 Investments in associates and share of profits

	2010 AED'000	2009 AED'000
Investments in associates	**4,046,553**	4,056,455
Share of (loss)/profit	**(486,051)**	356,704
Less: provision for impairment	**(130,228)**	(117,991)
	3,430,274	4,295,168

11.3 Provision for impairment of investments in associates

	2010 AED'000	2009 AED'000
Balance, beginning of the year	**117,991**	109,426
Charge for the year (note 49)	**12,237**	8,565
Balance, end of the year	**130,228**	117,991

11 Investments in associates (continued)

11.4 Carrying value of investment in associates

The following table illustrates summarised information of the Bank's investments in associates:

	2010 AED'000	2009 AED'000
Share of associates' balance sheets:		
Assets	**7,808,043**	6,847,034
Liabilities	**(4,247,540)**	(2,433,875)
Net assets	**3,560,503**	4,413,159
Less: Provision for impairment	**(130,229)**	(117,991)
	3,430,274	4,295,168
Share of associates' revenues and results:		
Revenues	**334,026**	1,014,371
Results	**(846,521)**	17,345

11.5 Investment in associates by geography

Carrying value of investment in associates by geographical area are as follows:

	2010 AED'000	2009 AED'000
Within U.A.E.	**2,879,233**	3,769,867
Other G.C.C. Countries	**49,835**	56,782
Rest of the world	**501,206**	468,519
	3,430,274	4,295,168

As at 31 December 2010, the fair value of the Bank's interest in listed associates on the local stock exchanges, was AED 822 million (2009: AED 1,542 million) and the carrying amount of the Bank's interest in those associates was AED 2,243 million (2009: AED 2,990 million).

11 Investments in associates (continued)

11.6 Disposal of interest in associates

In 2009, the Bank disposed its 32.5% interest in Millennium Finance Corporation ("MFC") in consideration of a 50% interest in Millennium Private Equity L.L.C. ("MPE"), a Company registered in U.A.E., amounting to AED 38.6 million.

Further, Emirates National Securitisation Company ("ENSEC"), an associate, also adopted a voluntary dissolution in accordance with the shareholders resolution. The net assets of both companies along with their consideration are as follows:

	2009 AED'000
Carrying amount of investments in associates at the date of disposal	42,509
Less: consideration for disposal of associates – net	(37,806)
Net loss on disposal of associates (note 45)	4,703

12 Properties under construction

The movement in properties under construction during the year was as follows:

	2010 **AED'000**	2009 AED'000
Balance, beginning of the year	**388,648**	257,830
Additions during the year	**135,517**	130,818
Balance, end of the year	**524,165**	388,648

13 Properties held for sale

Properties held for sale represent properties in U.A.E, Egypt and Lebanon that are registered in the name of certain subsidiaries and branches of the Bank.

	2010 **AED'000**	2009 AED'000
Balance, beginning of year	**157,269**	168,251
Acquisition of controlling interest, net	**399,899**	-
Additions	**29,747**	701
Disposals (note 44)	**(16,569)**	(12,464)
Impaired during the year (note 49)	**(20,000)**	-
Exchange (losses)/ gain	**(5,387)**	781
Balance, end of the year	**544,959**	157,269

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

14 Investment properties

	2010 AED'000	2009 AED'000
Land		
In U.A.E.	**1,171,398**	1,171,398
Other G.C.C. Countries	**-**	936
Rest of World	**51,733**	51,783
	1,223,131	1,224,117
Less: Provision for impairment	**-**	(300)
	1,223,131	1,223,817
Other real estate		
In U.A.E.	**353,121**	353,121
Other G.C.C. Countries	**-**	4,193
Rest of World	**519,856**	555,659
	872,977	912,973
Less: Accumulated depreciation and impairment	**(173,197)**	(140,802)
	699,780	772,471
	1,922,911	1,996,288

The fair value of the Bank's investment properties as of 31 December 2010 is AED 2.47 billion (2009: AED 2.94 billion).

The fair value of the investment properties has been arrived on the basis of a valuation carried out by independent valuers. The valuers are members of various professional valuers' associations, and have appropriate qualifications and recent experience in the valuation of properties at the relevant locations. The effective date of the valuations is 31 December 2010.

Land in the U.A.E. includes land valued at AED 276.14 million (2009: AED 276.14 million) donated by the Government of Dubai which has been allocated for the sole benefit of the Shareholders (refer note 31).

14 Investment properties (continued)

The movement in investment properties is as follows:

2010	**Land AED'000**	**Other Real Estate AED'000**	**Total AED'000**
Cost:			
Balance, beginning of the year	**1,224,117**	**912,973**	**2,137,090**
Additions	**-**	**8,757**	**8,757**
Disposals	**(936)**	**(4,193)**	**(5,129)**
Exchange effect	**(50)**	**(44,560)**	**(44,610)**
Balance, end of the year	**1,223,131**	**872,977**	**2,096,108**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	**300**	**140,502**	**140,802**
Charge for the year	**-**	**22,669**	**22,669**
Impairment, net	**-**	**13,629**	**13,629**
Disposal	**(300)**	**(626)**	**(926)**
Exchange effect	**-**	**(2,977)**	**(2,977)**
Balance, end of the year	**-**	**173,197**	**173,197**
Carrying amount			
31 December 2010	**1,223,131**	**699,780**	**1,922,911**
2009			
Cost:			
Balance, beginning of the year	1,224,303	908,888	2,133,191
Additions	-	15,281	15,281
Disposals	-	(4,284)	(4,284)
Transfers	-	(8,867)	(8,867)
Exchange effect	(186)	1,955	1,769
Balance, end of the year	1,224,117	912,973	2,137,090
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	127,852	128,152
Charge for the year	-	18,722	18,722
Disposal	-	(1,186)	(1,186)
Transfers	-	(5,320)	(5,320)
Exchange effect	-	434	434
Balance, end of the year	300	140,502	140,802
Carrying amount			
31 December 2009	1,223,817	772,471	1,996,288

Investment properties includes properties with a carrying value amount of AED 482.16 million (2009: 524.86 million) have been mortgage by one of the subsidiary as security financing obligation to other bank.

15 Receivables and other assets

	2010 AED'000	2009 AED'000
Accrued profit on investing, financing and Sukuks	876,448	818,440
Other income receivable	109,100	101,217
Trade receivables	72,202	54,188
Cheques sent for collection	13,236	11,865
Advances to contractors	4,456	38,999
Inventories	14,947	9,443
Prepaid expenses	87,908	81,910
Qard Hassan (profit-free facilities)	8,000	8,000
Overdrawn current accounts, net	39,816	27,963
Deferred taxation (note 26)	19,300	18,057
Islamic derivative assets (note 38)	61,074	86,572
Others	990,386	207,417
	2,296,873	1,464,071

Overdrawn current accounts, net are stated net of provision for impairment amounting to AED 54.50 million (2009: AED 43.25 million).

16 Property, plant and equipment

2010

	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:							
1 January 2010	90,369	82,852	346,095	353,599	4,165	286,625	1,163,705
Acquisition of controlling interest	24,648	-	9,958	18,511	-	313	53,430
Additions	1,654	1,356	17,241	8,260	627	64,165	93,303
Disposals	(1,123)	-	(455)	-	(804)	-	(2,382)
Other transfers	283,271	-	5,082	30,643	-	(326,003)	(7,007)
Exchange adjustments	(34)	(80)	(1,013)	(641)	(20)	(25)	(1,813)
31 December 2010	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Accumulated depreciation:							
1 January 2010	33,102	56,307	217,043	195,986	3,472	-	505,910
Acquisition of controlling interest	2,145	-	4,378	12,434	-	-	18,957
Charge for the year	9,035	4,317	51,549	57,527	427	-	122,855
Disposals	-	-	(303)	-	(730)	-	(1,033)
Reclassification	-	-	30	(30)	-	-	-
Exchange adjustments	-	(19)	(314)	(191)	(15)	-	(539)
31 December 2010	44,282	60,605	272,383	265,726	3,154	-	646,150
Carrying amount							
31 December 2010	354,503	23,523	104,525	144,646	814	25,075	653,086

16 Property, plant and equipment (continued)

2009

	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:							
1 January 2009	86,310	82,386	304,141	292,253	4,787	288,083	1,057,960
Additions	4,059	779	14,482	9,735	108	118,129	147,292
Disposals	-	-	(14,871)	(54)	(623)	-	(15,548)
Write offs during the year	-	-	-	-	-	(22,456)	(22,456)
Reclassification	-	-	8,867	-	-	-	8,867
Other transfers	-	-	37,681	53,868	-	(97,042)	(5,493)
Exchange adjustments	-	(313)	(4,205)	(2,203)	(107)	(89)	(6,917)
31 December 2009	90,369	82,852	346,095	353,599	4,165	286,625	1,163,705
Accumulated depreciation:							
1 January 2009	31,348	52,437	156,560	145,713	3,149	-	389,207
Charge for the year	1,754	3,914	58,889	50,651	800	-	116,008
Disposals	-	-	(2,912)	(54)	(423)	-	(3,389)
Reclassification	-	-	5,320	-	-	-	5,320
Exchange adjustments	-	(44)	(814)	(324)	(54)	-	(1,236)
31 December 2009	33,102	56,307	217,043	195,986	3,472	-	505,910
Carrying amount 31 December 2009	57,267	26,545	129,052	157,613	693	286,625	657,795

Capital work in progress comprises costs incurred on information technology projects and civil work for branch network.

17 Goodwill

	2010 AED'000	2009 AED'000
At 1 January	**34,516**	-
Additions (note 20.2)	**-**	34,516
Impaired during the year (note 49)	**(17,258)**	-
At 31 December	**17,258**	34,516

Impairment testing of goodwill

During 2010, the goodwill resulting from a business combination has been tested for impairment and accordingly the carrying value of goodwill adjusted for impairment.

18 Investments in joint ventures

18.1 Significant joint ventures

Details of the Bank's significant joint ventures at the end of reporting period are as follows:

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2010	Percentage of equity 2009
1.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	50.0%	50.0%
2.	Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50.0%	50.0%
3.	Al Rimal Development	Property development	U.A.E.	50.0%	50.0%
4.	Waqf Trust Services L.L.C. (under liquidation)	Trust and fiduciary services	U.A.E.	50.0%	50.0%
5.	Gulf Tankers L.L.C. (under liquidation)	Cargo and transport	U.A.E.	50.0%	50.0%

The entities listed as 4 and 5 did not conduct any operations during the current or previous periods.

18.2 Carrying value of investment in joint ventures

The Bank's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are disclosed below:

	2010 AED'000	2009 AED'000
Cash and balances with banks	**1,186**	8,915
Other investments	**1,013**	1,212
Properties under construction	**47,803**	47,798
Receivables and other assets	**16,474**	11,539
Property and equipment	**5,615**	5,993
Total assets	**72,091**	75,457
Total liabilities	**32,633**	39,935
Net profit for the year	**16,045**	10,465

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

19 Subsidiaries

The Bank's interest held directly or indirectly in the subsidiaries are as follows:

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2010	2009
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%	-
4.	Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Millennium Capital Holding PSC	Financing & investing	U.A.E.	95.5%	95.5%
6.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
7.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
8.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	100.0%	100.0%
9.	Emirates REIT Management Private Limited	Properties management	U.A.E	60.0%	-
10.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	96.0%
11.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	96.0%
12.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
13.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
14.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
15.	Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
16.	Petra Limited	Investments	Cayman Islands	100.0%	100.0%
17.	Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	U.A.E.	75.5%	75.5%
18.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
19.	Tamweel Funding Limited	Sukuk	Jersey	58.3%	-
20.	Tamweel Sukuk Limited	Sukuk	Cayman Islands	58.3%	-
21.	Tamweel ESOT Limited	Employees share options	British Virgin Islands	58.3%	-
22.	Tamweel Properties & Investments L.L.C	Real estate development	U.A.E	58.3%	-
23.	Tahfeez Middle East Limited	General trading	U.A.E	58.3%	-

19 Subsidiaries (continued)

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

	SPV	Principal activity	Country of incorporation	Percentage of equity 2010	2009
24.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
25.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
26.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
27.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
28.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
29.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
30.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
31.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
32.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
33.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
34.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
35.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
36.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
37.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
38.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
39.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
40.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
41.	Bulwark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
42.	Optimum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
43.	Rubicon Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
44.	Osiris Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
45.	Lotus Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
46.	Premiere Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
47.	Landmark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
48.	Blackstone Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
49.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
50.	Momentum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
51.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%

In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 5, 7, 13, 14, 17 and 40 to 51 also held by the Bank beneficially through nominee arrangements.

The entities listed as 8 and 17 did not conduct any operations during the current or previous periods.

20 Business combination

20.1 Acquisition of Tamweel P.J.S.C

Tamweel P.J.S.C ("the Company"), a company listed in NASDAQ Dubai and engaged in Islamic Sharia'a compliant financing and investment activities became a subsidiary of the Bank on the 4th of November 2010. The Bank acquired further shares of the Company from major shareholders thereby acquiring a controlling interest. The acquisition was done to unfold the value of the Company by providing long term strategic support. The acquisition will help the Bank in becoming largest retail islamic home financing bank in the U.A.E.

The fair value of identifiable assets and liabilities of the Company as at the acquisition date is as follows:

	Recognised on acquisition 2010 AED'000
Cash and balances with banks	236,758
Islamic financing and investing assets	9,758,677
Other investments	46,859
Properties held for sale	399,899
Receivables and other assets	98,060
Property and equipment	34,473
Total assets	10,574,726
Financing obligation	7,528,058
Accounts payable and accruals	346,668
Total liabilities	7,874,726
Fair value of net assets – 100%	2,700,000
Consideration for acquisition	935,600
Less: fair value of identifiable net assets acquired	(1,572,638)
Gain on acquiring controlling interest	637,038

The fair value of the net assets has been determined by the Bank on the basis of valuation of the Company carried by an external valuer that is not related to the Bank. The valuation of the Company was based on generally accepted business valuation techniques including the dividend discount model and adjusted book value method.

Consideration of acquisition

	2010 AED'000
Cash	318,609
Transfer of treasury shares	56,121
Fair value of available for sale shares	560,870
Total consideration	935,600

20 Business combination (continued)

20.1 Acquisition of Tamweel P.J.S.C (continued)

The transaction cost amounting to AED 1.1 million has been excluded from the consideration transferred and have been recognised as an expenses in the consolidated income statement.

Non-controlling interest of the Company was recognised at the acquisition date and was measured at cost.

The total revenue and net profit of the Bank includes AED 89.9 million and AED 6.1 million respectively in respect of post acquisition period. Had the Company been acquired on 1 January 2010, the total revenue and net profit of the Bank would have increased by AED 607 million and AED 21.4 million respectively.

20.2 Acquisition of Millennium Private Equity L.L.C

In 2009, the Bank acquired a 50% interest in Millennium Private Equity L.L.C. ("MPE") a Company based in U.A.E. and engaged in fund management activities. The fair value of the identifiable assets and liabilities of MPE acquired at that date were as follows:

	Recognised on acquisition 2009 AED'000
Cash and balances with banks	4,269
Other assets	9,964
Property and equipment	1,344
Total assets	15,577
Other liabilities	7,477
Total liabilities	7,477
Fair value of net assets – 100%	8,100
Consideration for acquisition	38,566
Less: fair value of identifiable net assets acquired	(4,050)
Goodwill arising on acquisition (note 17)	34,516

The fair values of the net asset were arrived at on the basis of a valuation carried out by an independent external valuer that is not related to the Bank.

21 Customers' deposits

	2010 AED'000	2009 AED'000
a) By type:		
Current accounts	**15,087,566**	14,015,030
Saving accounts	**10,047,003**	9,881,740
Investment deposits	**38,124,012**	40,023,078
Margin accounts	**188,102**	233,769
Profit equalisation provision (note 53)	**387**	41,886
	63,447,070	64,195,503
b) By contractual maturity:		
Demand deposits	**24,876,422**	24,556,123
Deposits due within 3 months	**18,843,284**	21,453,380
Deposits due within 6 months	**7,269,059**	7,684,018
Deposits due within 1 year	**12,310,178**	10,347,086
Deposits due over 1 year	**148,127**	154,896
	63,447,070	64,195,503
c) By geographical areas:		
Within U.A.E.	**61,122,089**	62,448,316
Outside U.A.E.	**2,324,981**	1,747,187
	63,447,070	64,195,503
d) By currency:		
U.A.E. Dirham	**58,724,097**	56,986,387
Other currencies	**4,722,973**	7,209,116
	63,447,070	64,195,503

22 Due to banks and financial institutions

	2010 AED'000	2009 AED'000
Current accounts	**51,517**	53,890
Investment deposits	**4,357,910**	1,395,161
	4,409,427	1,449,051

Due to banks and financial institutions by geography is as follows:

	2010 AED'000	2009 AED'000
Within U.A.E.	**3,993,101**	1,328,864
Outside U.A.E.	**416,326**	120,187
	4,409,427	1,449,051

23 Sukuk financing instruments

		2010	2009
		AED'000	AED'000
23.1	Sukuk financing instruments issued by the Bank	**2,357,075**	2,415,034
23.2	Sukuks financing instruments issued by a subsidiary	**1,818,940**	-
		4,176,015	2,415,034

23.1 Sukuk financing instruments issued by the Bank

During 2007 the Bank, through a Sharia'a compliant Sukuk Financing arrangement, raised a US Dollar denominated medium term finance amounting to AED 2,754.75 million (USD 750 million). The sukuks are listed on the NASDAQ Dubai and the London Stock Exchange.

The terms of the arrangement include transfer of certain identified assets ("the Co Owned Assets") including original leased and musharakat assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to a Sukuk company, DIB Sukuk Company Limited – the Issuer, especially formed for the sukuk transaction. The assets are in the control of the Bank and shall continue to be serviced by the Bank. The sukuk certificates mature in 2012.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuks, the Bank has undertaken to repurchase the assets at the exercise price.

The sukuks bear a variable profit rate payable to the investors based on the rate of 3 months LIBOR plus 0.33% per annum. Such profits are payable on a quarterly basis.

During 2010, sukuks amounting to AED 58.0 million (USD 15.8 million) (2009: AED 340 million (USD 92.5 million) were bought back at a discount, including buy back through a cash tender offer to sukuk holders. The Bank has recognised AED 6.4 million (2009: AED 38.7 million) as a related gain on sukuk buy back which is included under other income. These sukuk certificates will be cancelled upon maturity when the Bank will re-purchase the Co Owned Assets.

23.2 Sukuks financing instruments issued by a subsidiary

- During 2008, a subsidiary of the Bank issued Sharia'a compliant, non-convertible sukuk in the form of Trust Certificates for the total value of AED 1,100 million (at a rate of 3 months EIBOR Plus 0.225% per annum) and convertible sukuk for a total value of USD 300 million (at a fixed profit rate of 4.31% per annum), which are listed on NASDAQ Dubai. The sukuk certificates mature in 2013.

- As at 31 December 2010, the sukuk held by third parties were AED 1.82 million.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

23 Sukuk financing instruments (continued)

23.2 Sukuks financing instruments issued by a subsidiary (continued)

In accordance with the terms of the subscription, each Trust Certificate may be redeemed at the option of the Certificate holder or the subsidiary as follows:

a. At the option of the Certificate holder through "Voluntary Early Redemption" at any time one year after the issue date subject to satisfying certain conditions;
b. At the option of the a subsidiary at any time 3 years after the issue date through "Optional Partial Redemption" subject to satisfying certain condition.

In both the options, the subsidiary will either issue the share of the subsidiary at the relevant exchange price or cash will be paid.

At the time of final maturity, any remaining Trust Certificates will be redeemed in full by a subsidiary in cash at face value plus any unpaid profit amount.

24 Medium term wakala finance

The Bank opted to re-categorise wakala deposits received in 2008 from UAE Ministry of Finance amounting to AED 3.75 billion to Tier 2 qualifying finance ("Tier 2 finance"). The conversion process has been approved by the Shareholders in the Extraordinary General Meeting held in April 2009. The wakala deposits provided by the UAE Ministry of Finance (the Muwakkil) to the Bank (the Wakeel) will be used for investments for a tenor of seven years commencing from the date of re-categorisation and will mature in December 2016. Wakala profit will be paid every three months based on the expected profit rate range of 4.00% –5.25% per annum.

In accordance with the terms of wakala agreement, the Muwakkil's rights and claims on the Wakeel in respect of wakala are wholly subordinated to the rights and claims of all other non subordinated creditors.

25 Payables and other liabilities

	2010 AED'000	2009 AED'000
Depositors' share of profits (note 50)	**329,928**	364,140
Payable for properties	**248,153**	171,079
Bankers cheques	**185,822**	255,300
Sundry deposits	**429,357**	399,044
Trade payables	**411,411**	443,075
Rent received in advance	**122,728**	167,053
Vendor payable for investing and financing assets	**116,487**	665,724
Provision for employees' end-of-service benefits (note 27)	**101,737**	89,554
Unclaimed dividends	**52,121**	38,964
Directors' remuneration	**4,800**	4,800
Payable to contractors	**18,274**	4,856
Fund transfer and remittances	**51,508**	74,664
Investments related payable	**293,585**	293,585
Cheques received for collection	**465**	1,624
Provision for taxation (note 26)	**3,626**	-
Others	**1,309,921**	397,342
	3,679,923	3,370,804

26 Taxation

Provision for taxation

	2010 AED'000	2009 AED'000
Opening balance	-	3,544
Charge for the year	5,040	892
Tax paid	(1,414)	(4,436)
Closing balance (note 25)	3,626	-

Deferred tax asset

	2010 AED'000	2009 AED'000
Deferred tax asset at beginning of the year	18,057	25,371
Additions/(reversals) during the year	1,545	(5,952)
Exchange effect	(302)	(1,362)
Deferred tax asset at the end of the year (note 15)	19,300	18,057

Tax expense for the year

	2010 AED'000	2009 AED'000
Current taxation	(5,037)	(892)
Deferred taxation	1,545	(5,952)
Income tax expense	(3,492)	(6,844)

27 Provision for employees' end-of-service benefits

	2010 AED'000	2009 AED'000
At 1 January	89,554	74,313
Charge during the year	27,140	22,200
Paid during the year	(14,957)	(6,959)
At 31 December (note 25)	101,737	89,554

28 Accrued Zakat

	2010 AED'000	2009 AED'000
Zakat on Shareholders' equity	146,326	139,428
Zakat on profit equalisation provision (note 53)	10	1,108
	146,336	140,536

29 Share capital

	2010 Number of Shares'000	2010 Amount in AED'000	2009 Number of shares'000	2009 Amount in AED'000
Authorised				
Ordinary shares of AED 1 each	**3,797,054**	**3,797,054**	3,617,505	3,617,505
Issued and fully paid up				
At 1 January	**3,617,505**	**3,617,505**	3,445,400	3,445,400
Bonus shares	**179,549**	**179,549**	172,105	172,105
At 31 December	**3,797,054**	**3,797,054**	3,617,505	3,617,505

During the year, 179,549,000 shares of AED 1 each were issued as bonus shares (2009: 172,105,000 shares).

30 Treasury shares

The treasury shares at 31 December 2009 included the shares acquired from a third party on settlement of certain transactions.

31 Reserves

	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Exchange translation reserve AED'000	Total AED'000
As of 1 January 2009	2,731,879	276,139	2,250,000	(59,680)	5,198,338
Exchange and other adjustments	-	-	-	(18,161)	(18,161)
Transfer from retained earnings	-	-	100,000	-	100,000
As of 1 January 2010	2,731,879	276,139	2,350,000	(77,841)	5,280,177
Exchange and other adjustments	-	-	-	(13,700)	(13,700)
As of 31 December 2010	**2,731,879**	**276,139**	**2,350,000**	**(91,541)**	**5,266,477**

Statutory reserve

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

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital.

31 Reserves (continued)

Donated land reserve

The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (note 14). The donated land reserve represents the fair value of the land, net of disposals, at the time of the donation.

General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

32 Cumulative changes in fair value

	2010 AED'000	2009 AED'000
At 1 January	**(723,713)**	(888,714)
Net unrealised gain on available for sale investments	**606,140**	165,310
Reclassification of realised gain on disposal of available for sale investments to profit or loss	**(125,593)**	(309)
At 31 December	**(243,166)**	(723,713)

33 Dividends paid and proposed

	2010 AED'000	2009 AED'000
Dividend proposed		
Cash dividend: (2010: AED 0.10 per share)	**379,705**	-
Dividend proposed and paid		
Cash dividend: (2009: AED 0.15 per share)	-	538,648
Scrip dividend (2009: AED 0.05 per share)	-	179,549

34 Hedging reserve

During 2009 the Bank discontinued its cash flow hedge of a forecast transaction which resulted in reclassification of associated cumulative gains during 2010 of AED 39.9 million (2009: AED 45.2 million). Refer to note 42.

35 Employee stock Ownership plan (ESOP)

The Bank commenced Employee Stock Ownership Plans (ESOP) to recognise and retain key employees in 2004. The plans give employees the right to own the Bank's shares at the issue price.

The following share based payment arrangements were in existence in current and previous years.

	Issue year	*No of shares*	*Grant date*	*Expiry date*	*Exercise price*	*Fair value at grant date*
1	2006	4,113,000	January 2006	February 2010	2	26.7
2	2010	1,560,000	April 2010	March 2012	-	2.0

The shares were granted under nominee arrangements, to various categories of employees on condition that the employees continue in the service of the Bank for an agreed minimum period ranging between two to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares would revert back to the Bank. Generally, the management considers it unlikely that a significant amount of shares would revert back to the Bank on account of employees leaving before completing their vesting period. In 2008, some of staffs have left the Bank, and 1,576,836 shares have been taken back. As a result the yearly charges on account of ESOP have been changed prospectively as follows:

The fair value of existing ESOP in current and previous years on grant date and adjusted charge over vesting period is as follows.

Year	*Current charge to consolidated income statement* AED '000	*Charge to consolidated income statement at grant date* AED '000
2006	30,312	30,312
2007	36,846	36,846
2008	18,049	25,085
2009	5,444	6,856
2010	1,580	3,594
2011	1,653	1,653
2012	551	551
Total	94,435	104,897

36 Non-controlling interest

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.

37 Contingent liabilities and commitments

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

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

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

	2010 **AED'000**	2009 AED'000
Contingent liabilities:		
Letters of guarantee	**8,774,047**	10,484,586
Letters of credit	**2,535,666**	3,519,943
	11,309,713	14,004,529
Commitments:		
Capital expenditure commitments	**388,932**	416,257
Irrevocable undrawn facilities commitments	**12,567,539**	11,217,244
	12,956,471	11,633,501
Total contingent liabilities and commitments	**24,266,184**	25,638,030

38 Islamic derivatives

The table below shows the positive and negative fair values of 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 a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2010: ***Notional amounts by term to maturity***

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	15,127	14,029	5,308,254	2,552,713	2,748,360	7,181	-	-
Islamic profit rate Swaps (refer note 15)	258,074	197,000	9,995,651	-	-	9,324,101	-	671,550
	273,201	211,029	15,303,905	2,552,713	2,748,360	9,331,282	-	671,550

38 Islamic derivatives (continued)

31 December 2009: *Notional amounts by term to maturity*

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	13,793	16,457	8,428,233	3,807,118	1,332,980	2,904,929	383,206	-
Islamic profit rate Swaps (refer note 15)	275,548	188,976	12,609,741	-	-	-	12,217,140	392,601
	289,341	205,433	21,037,974	3,807,118	1,332,980	2,904,929	12,600,346	392,601

The Bank has positions in the following types of derivative.

Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

Islamic Swaps

Islamic Swaps are based on a Waa'd (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and strategic hedging (see below). Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

For profit rate risk, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into profit rate swaps. As strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

39 Income from Islamic financing and investing assets

	2010 AED'000	2009 AED'000
Financing assets		
Commodities murabahat	**416,517**	454,259
International murabahat	**10,023**	18,046
Vehicles murabahat	**486,552**	486,540
Real estate murabahat	**258,304**	352,726
Total murabahat income	**1,171,396**	1,311,571
Istisna'a	**458,702**	408,560
Home finance ijara	**188,907**	155,650
Ijara	**432,505**	416,952
Salam finance	**52,349**	-
Income from financing assets	**2,303,859**	2,292,733
Investing assets		
Musharakat	**597,013**	625,053
Mudarabat	**270,604**	354,791
Wakalat	**37,584**	42,945
Others	**12,635**	7,335
Income from investing assets	**917,836**	1,030,124
Total income from Islamic financing and investing assets	**3,221,695**	3,322,857

Income from investing and financing assets is presented net of forfeited income of AED 12 million (2009: AED 8.97 million).

40 Income from International murabahats and wakala, short term

	2010 AED'000	2009 AED'000
Income from International murabahats from Banks and financial institutions	**13,328**	20,087
Income from Investment and wakala deposits	**21,199**	31,391
Income from International murabahats with Central Bank	**1,786**	-
	36,313	51,478

41 Gain/(loss) from other investments

	2010 AED'000	2009 AED'000
Realised gain on disposal of available for sale investments	**125,593**	-
Loss on disposal of investments carried at fair value through profit or loss	**(1,941)**	(6,841)
Loss on revaluation of investments carried at fair value through profit or loss	**(13,182)**	(53,562)
Dividend on investments carried at fair value through profit or loss	**281**	16,310
Dividend on available for sale equity investments	**24,022**	23,336
Dividend from available for sale investment funds	**1,390**	1,822
	136,163	(18,935)

Dividend on available for sale investment is presented net of forfeited income of AED nil (2009: AED 3.05 million).

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

42 Commissions, fees and foreign exchange income

	2010 AED'000	2009 AED'000
Trade related commission and fees	**170,933**	237,930
Other commissions and fees	**371,430**	369,071
Gains on unilateral promise to buy/sell currencies	**102,836**	99,842
Cumulative gains on hedging reserve reclassified to profit or loss (note 34)	**39,944**	45,219
Fair value of Islamic derivatives	**1,887**	107
	687,030	752,169

Other commission and fees is presented net of forfeited income of AED nil (2009: AED 1.20 million).

43 Income from investment properties

	2010 AED'000	2009 AED'000
Net rental income	**72,165**	75,609
Gain on sale of investment properties	**18,001**	2,691
	90,166	78,300

44 Income from sale of properties held for sale

	2010 AED'000	2009 AED'000
Sales proceeds	**31,067**	13,461
Cost of sale (note 13)	**(16,569)**	(12,464)
	14,498	997

45 Other income

	2010 AED'000	2009 AED'000
Services income, net	**85,059**	32,446
Loss on disposal of interest in associates (note 11.6)	**-**	(4,703)
Other	**54,947**	158,710
	140,006	186,453

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

46 Personnel expenses

	2010 AED'000	2009 AED'000
Salaries and wages	779,673	712,859
Staff terminal benefits	27,140	22,200
Share based payments	1,581	5,444
Other	9,425	72,699
	817,819	813,202

47 General and administrative expenses

	2010 AED'000	2009 AED'000
Administrative expenses	107,538	110,029
Depreciation of property, plant and equipment (refer note 16)	122,855	116,008
Rental charges under operating leases	77,194	67,082
Communication costs	67,110	53,507
Premises and equipment maintenance costs	45,516	42,869
Printing and stationery	13,284	11,713
Miscellaneous write offs	-	23,997
Other	109,446	99,555
	542,943	524,760

48 Impairment loss on financial assets, net

	2010 AED'000	2009 AED'000
Net provision for financing assets	617,287	671,284
Net provision for investing assets	36,149	45,406
Net provision for receivables and other assets	11,328	15,737
Impairment loss on available for sale investments	136,291	92,660
Reversal in provision for available for sale investment funds	-	(15,743)
	801,055	809,344

49 Impairment loss on non-financial assets, net

	2010 AED'000	2009 AED'000
Impairment loss on investment in associates	12,237	8,565
Impairment of investment properties	13,329	-
Impairment of properties held for sale	20,000	-
Impairment of Goodwill	17,258	-
	62,824	8,565

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

50 Depositors' share of profits

	2010 AED'000	2009 AED'000
Share for the year	**1,435,631**	1,739,197
Less: Pertaining to depositors' profit equalisation provision (note 53)	**(511)**	(11,636)
Transfer from depositors' profit equalisation provision (note 53)	**42,000**	195,500
	1,477,120	1,923,061
Less: Paid during the year	**(1,147,192)**	(1,558,921)
Depositors' share of profit payable (note 25)	**329,928**	364,140
Share of profits accrued to customers and financial institutions are as		
Investment and savings deposits from customers	**996,491**	1,176,329
Wakala and other investment deposits from banks and customers	**409,884**	529,138
Profit accrued on sukuk financing instrument	**29,256**	33,730
	1,435,631	1,739,197

51 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2010	2009
Profit for the year net of directors' remuneration of AED 4,800,000 (2009: AED 4,800,000)	**801,723,000**	1,202,691,000
Weighted average number of shares of AED 1 each outstanding during the year	**3,776,269,000**	3,772,112,000
Basic and diluted earnings per share in AED	**0.21**	0.32

The earnings per share of AED 0.33 as reported for 2009 has been adjusted for the effect of the shares issued in 2010 as a result of the bonus shares.

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

52 Cash and cash equivalents

	2010 AED'000	2009 AED'000
Cash and balances with Central Banks	**11,247,225**	11,611,570
Due from banks and financial institutions	**2,356,531**	2,557,258
	13,603,756	14,168,828
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(3,120,075)**	(88,836)
	10,483,681	14,079,992

53 Profit equalisation provision

	2010 AED'000	2009 AED'000
Balance, beginning of the year – as reported	**41,886**	226,858
Share of profit for the year (note 50)	**511**	11,636
Zakat for the year (note 28)	**(10)**	(1,108)
Additional transfer to depositors' share of profit during the year (note 50)	**(42,000)**	(195,500)
Balance, end of the year (note 21)	**387**	41,886

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

54 Related party transactions

The Bank enters into arms length transactions with Shareholders, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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

	Major Shareholders AED'000	**Directors and key management personnel AED'000**	**Associates AED'000**	**Total AED'000**
2010				
Financing and investing assets	**1,836,500**	**183,701**	**463,475**	**2,483,676**
Customers' deposits	**2,847,087**	**43,772**	**172,052**	**3,062,911**
Income from financing and investing assets	**56,914**	**10,662**	**4,321**	**71,897**
Depositors' share of profits	**107,538**	**663**	**171**	**108,372**
Contingent liabilities	**-**	**303**	**700**	**1,003**

	Major Shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2009				
Financing and investing assets	3,812,737	182,362	513,774	4,508,873
Customers' deposits	5,065,054	55,652	287,281	5,407,987
Income from financing and investing assets	73,252	12,194	14,562	100,008
Depositors' share of profits	38,443	988	1,910	41,341
Contingent liabilities	2,038,091	890	700	2,039,681

54 Related party transactions (continued)

The compensation paid to key management personnel of the Bank is as follows:

	2010 AED'000	2009 AED'000
Salaries and other benefits	**28,915**	45,164
Employee terminal benefits	**1,948**	1,612

55 Segmental information

IFRS 8 requires operating segments to be 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. In contrast, the predecessor Standard (IAS 14: Segment Reporting) required an entity to identify two segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Bank as the segments reported by the Bank was consistent with the internal reports provided to the chief operating decision maker.

For operating purposes the Bank is organised into four major business segments as follows:

i) Retail and business banking: Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, islamic card and funds transfer facilities and trade finance facilities.

ii) Wholesale Banking: Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.

iii) Real estate: Property development and other real estate investments.

iv) Treasury: Principally responsible for managing the Bank's overall liquidity and market risk and provide treasury services to customers. Treasury also run its own Islamic debt and specialise financial instruments book to manage the above risk.

iv) Others: Functions other then above core lines of businesses.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated profit rates which approximate market rates on an arm's length basis.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

55 Segmental information (continued)

Primary segment information – business segments

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December:

	Retail and business banking		Wholesale banking		Real estate		Treasury		Others		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Net operating revenue	**1,615,121**	1,526,668	**1,076,996**	1,003,966	**(215,074)**	(291,116)	**360,219**	616,837	**435,656**	520,018	**3,272,918**	3,376,373
Share of profit /(loss) of associates	-	-	**25,614**	17,345	**(872,135)**	-	-	-	-	-	**(846,521)**	17,345
Gain on acquiring controlling interest	-	-	-	-	-	-	-	-	**637,038**	-	**637,038**	-
Operating expenses	**(893,736)**	(848,469)	**(297,274)**	(339,313)	**(67,162)**	(55,319)	**(20,623)**	(21,437)	**(104,636)**	(92,146)	**(1,383,431)**	(1,356,684)
Provision for impairment	**(178,141)**	(134,044)	**(677,285)**	(671,889)	-	(7,659)	-	-	**(8,453)**	(4,317)	**(863,879)**	(817,909)
Profit for the year before tax	**543,244**	544,155	**128,051**	10,109	**(1,154,371)**	(354,094)	**339,596**	595,400	**959,605**	423,555	**816,125**	1,219,125
Income tax	-	-	-	-	-	-	-	-	-	-	**(3,492)**	(6,844)
Profit for the year	**543,244**	544,155	**128,051**	10,109	**(1,154,371)**	(354,094)	**339,596**	595,400	**959,605**	423,555	**812,633**	1,212,281

55 Segmental information (continued)

Primary segment information – business segments

The following table presents income and net profit regarding the Bank's business segments:

	Retail and business banking		Wholesale Banking		Real estate		Treasury		Others		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Segment assets	**23,718,232**	12,306,672	**37,999,806**	41,923,446	**4,748,006**	5,509,332	**9,598,156**	10,645,772	**14,073,571**	13,919,049	**90,137,771**	84,304,271
Segment liabilities and equity	**46,862,730**	43,553,495	**21,079,548**	25,196,796	**547,096**	837,709	**8,925,308**	4,241,853	**12,723,089**	10,474,418	**90,137,771**	84,304,271
Capital expenditure	**27,991**	44,188	**27,991**	44,188	**-**	-	**18,661**	29,458	**18,660**	29,458	**93,303**	147,292

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

55 Segmental information (continued)

Secondary segment information – geographical segments

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

	Domestic		*International*		*Total*	
	2010	2009	**2010**	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Gross income	**3,415,024**	4,694,063	**447,004**	438,852	**3,862,028**	5,132,915
Total assets	**84,110,228**	76,872,268	**6,027,543**	7,432,003	**90,137,771**	84,304,271
Total liabilities and equity	**84,757,343**	79,429,952	**5,380,428**	4,874,319	**90,137,771**	84,304,271
Capital expenditure	**78,869**	135,959	**14,434**	11,333	**93,303**	147,292

56 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2010

	Less than one month AED'000	1 – 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	4,135,310	4,310,176	2,801,739	-	-	11,247,225
Due from banks and financial institutions	395,530	1,638,868	322,133	-	-	2,356,531
Islamic financing and investing assets	5,746,037	2,985,310	6,903,828	21,459,918	20,075,974	57,171,067
Investment in Islamic sukuk	14	-	240,339	6,630,716	1,329,407	8,200,476
Other investments	-	-	706,995	1,065,951	-	1,772,946
Investments in associates	-	-	-	3,430,274	-	3,430,274
Properties under construction	-	-	-	524,165	-	524,165
Properties held for sale	-	-	135,368	409,591	-	544,959
Investment properties	-	-	-	1,922,911	-	1,922,911
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,843	2,296,873
Property, plant and equipment	9,887	19,227	85,100	199,462	339,410	653,086
Goodwill	-	-	-	17,258	-	17,258
Total assets	10,347,290	9,034,525	13,288,738	35,716,584	21,750,634	90,137,771
Liabilities:						
Customers' deposits	9,098,359	6,596,396	27,085,844	20,643,365	23,106	63,447,070
Due to banks and other financial institutions	183,309	435,594	1,747,226	2,043,298	-	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	-	4,176,015
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Equity	-	-	379,705	(243,166)	10,389,918	10,526,457
Total liabilities and equity	10,716,133	7,298,417	30,890,697	27,066,957	14,165,567	90,137,771
Net maturities gap	(368,843)	1,736,108	(17,601,959)	8,649,627	7,585,067	-

56 Maturity analysis of assets and liabilities (continued)

At 31 December 2009

	Less than one month AED'000	1 – 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	7,868,036	3,743,534	-	-	-	11,611,570
Due from banks and financial institutions	1,871,280	685,978	-	-	-	2,557,258
Islamic financing and investing assets	5,483,365	3,725,723	4,442,826	24,778,197	11,494,830	49,924,941
Investment in Islamic sukuk	-	2,550	1,174,732	5,741,513	2,372,002	9,290,797
Other investments	-	-	1,022,954	902,996	-	1,925,950
Investments in associates	-	-	-	-	4,295,168	4,295,168
Properties under construction	-	-	-	388,648	-	388,648
Properties held for sale	-	-	157,269	-	-	157,269
Investment properties	-	-	-	1,996,288	-	1,996,288
Receivables and other assets	87,719	56,572	1,319,780	-	-	1,464,071
Property, plant and equipment	7,818	15,636	70,361	523,279	40,701	657,795
Goodwill	-	-	-	-	34,516	34,516
Total assets	15,318,218	8,229,993	8,187,922	34,330,921	18,237,217	84,304,271
Liabilities:						
Customers' deposits	12,263,174	7,429,426	24,824,200	19,678,703	-	64,195,503
Due to banks and other financial institutions	151,551	48,831	1,248,669	-	-	1,449,051
Sukuk financing instruments	-	-	-	2,415,034	-	2,415,034
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	849,740	177,180	1,924,237	419,647	-	3,370,804
Accrued zakat	-	-	140,536	-	-	140,536
Equity	-	-	765,759	(723,713)	8,938,754	8,980,800
Total liabilities and equity	13,264,465	7,655,437	28,903,401	21,789,671	12,691,297	84,304,271
Net maturities gap	2,053,753	574,556	(20,715,479)	12,541,250	5,545,920	-

57 Fair vales of financial instruments

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

The fair value of unilateral promise to buy/sell currencies and Islamic swaps is set out in note 38. The fair value of the Bank's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2010.

57 Fair values of financial instruments (continued)

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) the carrying amounts approximate to their fair value. This applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Valuation of all financial instruments recorded at fair value, is based on quoted market prices.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

  Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities and investments in Islamic sukuk.

  Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC Islamic derivative contracts. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.

  Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and Islamic financing instruments with significant unobservable components.

  This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

  The table below summarises the fair value of financial instruments of the Bank's financial instruments according to fair value hierarchy.

At 31 December 2010

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	108,406	-	-	108,406
Islamic derivative financial assets held for trading	-	61,074	-	61,074
Available-for-sale financial assets				
Quoted equities	601,348	-	-	601,348
Investment in Islamic sukuk	1,195,151	-	-	1,195,151
Total	1,904,905	61,074	-	1,965,979

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

57 Fair values of financial instruments (continued)

At 31 December 2009

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	128,561	-	-	128,561
Islamic derivative financial assets held for trading	-	86,572	-	86,572
Available-for-sale financial assets				
Quoted equities	739,814	-	-	739,814
Investment in Islamic sukuk	969,683	-	-	969,683
Total	1,838,058	86,572	-	1,924,630

58 Financial assets and liabilities

At 31 December 2010

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	9,872,471	9,872,471
Due from banks and financial institutions	-	-	-	2,356,531	2,356,531
Islamic financing and investing assets	57,171,067	-	-	-	57,171,067
Investment in Islamic sukuk	-	1,195,151	-	7,005,325	8,200,476
Other investments	-	1,664,540	108,406	-	1,772,946
Receivables and other assets	2,021,583	-	-	-	2,021,583
	59,192,650	2,859,691	108,406	19,234,327	81,395,074
Financial liabilities					
Customer deposits	-	-	-	63,447,070	63,447,070
Due to banks and other financial institutions	-	-	-	4,409,427	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	4,176,015
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	-	3,679,923	3,679,923
	-	-	-	79,464,978	79,464,978

58 Financial assets and liabilities (continued)

At 31 December 2009

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	10,120,397	10,120,397
Due from banks and financial institutions	-	-	-	2,557,258	2,557,258
Islamic financing and investing assets	49,924,941	-	-	-	49,924,941
Investment in Islamic sukuk	-	969,683	-	8,321,114	9,290,797
Other investments	-	1,797,389	128,561	-	1,925,950
Receivables and other assets	1,354,661	-	-	-	1,354,661
	51,279,602	2,767,072	128,561	20,998,769	75,174,004
Financial liabilities					
Customer deposits	-	-	-	64,195,503	64,195,503
Due to banks and other financial institutions	-	-	-	1,449,051	1,449,051
Sukuk financing instruments	-	-	-	2,415,034	2,415,034
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	-	3,370,804	3,370,804
	-	-	-	75,182,935	75,182,935

59 Risk management

59.1 Introduction

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

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

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

59.1.1 Risk management structure

The Board of Directors 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 principles.

59 Risk management (continued)

59.1 Introduction (continued)

Risk Management Committee

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

Risk Management Department

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

Asset and Liability Management Committee

Asset and Liability Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited periodically by the internal audit which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit comments the results of their assessments with management, and reports its findings and recommendations to the Audit Committee.

59.1.2 Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity and other risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

59 Risk management (continued)

59.1 Introduction (continued)

59.1.3 Risk mitigation

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

The Bank seeks to manage its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

59.1.4 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.

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.

59.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

59 Risk management (continued)

59.2 Credit Risk (continued)

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of Islamic financing and investment activities;
- 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.

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

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 are housed with the Moody's Risk Analyst rating tool, which has been implemented during 2009.

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 amount advance, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate and financial guarantees;
- Charges over business assets such as premises, machinery, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Islamic derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated balance sheet.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.2 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.

59.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2010 AED'000	Gross maximum exposure 2009 AED'000
Balances with central banks	**9,872,471**	10,120,397
Due from banks and financial institutions	**2,356,531**	2,557,258
Islamic financing and investing assets	**60,128,141**	51,873,243
Investment in Islamic sukuk	**8,200,476**	9,290,797
Other investments	**1,772,946**	1,925,950
Receivables and other assets	**2,076,134**	1,456,394
	84,406,699	77,224,039
Contingent liabilities	**11,309,713**	14,004,529
Commitments	**12,956,471**	11,633,501
Total	**108,672,883**	102,862,069

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.2 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:

At 31 December 2010

	Retail and business banking AED'000	**Wholesale banking AED'000**	**Total AED'000**
U.A.E.	**25,902,054**	**76,508,874**	**102,410,928**
GCC	**-**	**3,276,653**	**3,276,653**
South Asia	**394,739**	**1,768,559**	**2,163,298**
Europe	**-**	**436,667**	**436,667**
Africa	**-**	**183,662**	**183,662**
Others	**-**	**201,675**	**201,675**
Total	**26,296,793**	**82,376,090**	**108,672,883**

At 31 December 2009

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
U.A.E.	11,244,218	81,756,635	93,000,853
GCC	-	5,108,941	5,108,941
South Asia	472,148	1,795,872	2,268,020
Europe	-	1,723,087	1,723,087
Africa	-	314,591	314,591
Others	-	446,577	446,577
Total	11,716,366	91,145,703	102,862,069

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Bank's financial assets, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum Exposure	
	2010	2009
	AED'000	AED'000
Financial Institutions	**18,517,858**	20,392,723
Government	**11,170,038**	9,585,125
Manufacturing and services	**14,186,895**	16,012,319
Real Estate	**30,515,910**	34,994,946
Home financing	**14,519,700**	3,022,692
Consumer financing	**11,393,439**	8,917,311
Trade	**8,369,043**	9,936,953
Total	**108,672,883**	102,862,069

59.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For commercial financing and investing facilities, charges over real estate properties, inventory and trade receivables,
- For retail financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for financings to their subsidiaries, but the benefits are not included in the above table.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for investing and financing related balance sheet lines, based on the Bank's credit rating system.

At December 2010

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	9,872,471	-	-	9,872,471
Due from banks and financial institutions	2,356,531	-	-	2,356,531
Islamic financing and investing assets	50,348,908	4,767,011	5,012,222	60,128,141
Investment in Islamic sukuks	8,200,476	-	-	8,200,476
Other investments	1,772,946	-	-	1,772,946
Receivables and other assets	1,970,634	39,817	65,683	2,076,134
	74,521,966	4,806,828	5,077,905	84,406,699
Contingent liabilities	11,309,713	-	-	11,309,713
Commitments	12,956,471	-	-	12,956,471
	24,266,184	-	-	24,266,184
Total	98,788,150	4,806,828	5,077,905	108,672,883

At December 2009

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	10,120,397	-	-	10,120,397
Due from banks and financial institutions	2,557,258	-	-	2,557,258
Islamic financing and investing assets	45,132,195	3,634,043	3,107,005	51,873,243
Investment in Islamic sukuks	9,290,797	-	-	9,290,797
Other investments	1,925,950	-	-	1,925,950
Receivables and other assets	1,385,180	27,963	43,251	1,456,394
	70,411,777	3,662,006	3,150,256	77,224,039
Contingent liabilities	14,004,529	-	-	14,004,529
Commitments	11,633,501	-	-	11,633,501
	25,638,030	-	-	25,638,030
Total	96,049,807	3,662,006	3,150,256	102,862,069

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.4 Credit quality per class of financial assets (continued)

Past due financing and investing assets include those that are only past due by a few days. An analysis of past due investing and financing assets, by age, is provided. The majority of the past due investing and financing assets are not considered to be impaired.

Credit risk exposure of the Bank's financial assets for each internal risk rating

	Moody's equivalent grades	**Total 2010 AED'000**	Total 2009 AED'000
Low risk			
Risk rating class 1	Aaa	**12,249,828**	13,812,166
Risk rating classes 2 and 3	Aa1-A3	**12,640,826**	29,601,113
Fair risk			
Risk rating class 4	Baa1-Baa3	**19,237,170**	24,631,065
Risk rating classes 5 and 6	Ba1-B3	**40,972,960**	26,424,077
Risk rating class 7	Caa1-Caa3	**13,688,058**	1,581,386
Watchlist			
Risk rating class 8		**4,806,136**	3,662,006
Impaired			
Risk rating classes 9, 10 and 11		**5,077,905**	3,150,256
		108,672,883	102,862,069

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.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.5 Ageing analysis of past due but not impaired investing and financing assets per class of financial assets

As at December 2010

	Less than 30 days AED'000	**31 to 60 days AED'000**	**61 to 90 days AED'000**	**More than 90 days AED'000**	**Total AED'000**
Islamic financing and investing assets	**1,127,951**	**843,421**	**461,031**	**2,334,608**	**4,767,011**

As at December 2009

	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
Islamic financing and investing assets	1,350,921	725,390	180,007	1,377,725	3,634,043

See note 48 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

59.2.6 Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2010 AED'000	2009 AED'000
Islamic financing and investing assets	**6,078,619**	1,034,439

59 Risk management (continued)

59.2.7 Impairment assessment

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

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances, letters of credit and guarantees are assessed and provision made in a similar manner as for Islamic financing and investing assets.

59.3 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.

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with Central Banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

During 2007, the Bank issued a five year sukuk AED 2,822.25 million (USD 750 million) sukuk to diversify sources of funding to support business growth going forward.

During 2009, the Bank has also opted to re-categorise wakala finance from UAE Ministry of Finance to Tier 2 capital for seven years.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

59.3.1 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 deparment, 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 borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of investing and financing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	March	June	September	December
2010	**17%**	**19%**	**16%**	**18%**
2009	24%	19%	12%	18%

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.2 Funding approach

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

59.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the consolidated balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

As at 31 December 2010

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	4,039,601	4,406,053	2,813,137	-	-	11,258,791
Due from banks and financial institutions	337,077	1,521,681	507,552	-	-	2,366,310
Islamic financing and investing assets	8,948,557	6,989,739	13,358,379	25,667,204	17,125,545	72,089,424
Investment in Islamic sukuk	14	-	247,550	7,691,630	1,701,642	9,640,836
Other investments	-	-	706,995	1,065,951	-	1,772,946
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,844	2,296,874
Total assets	13,385,761	12,998,417	19,726,849	34,481,123	18,833,031	99,425,181
Customers' deposits	21,252,483	22,396,508	8,414,400	12,001,973	1,267,146	65,332,510
Due to banks and other financial institutions	183,309	439,950	1,799,643	2,370,226	-	4,793,128
Sukuk financing instruments	-	50,797	152,391	4,785,580	-	4,988,768
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Total liabilities	22,870,257	23,153,682	12,044,356	19,605,224	6,070,401	83,743,920

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.3 Non-derivative cash flows (continued)

As at 31 December 2009

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	6,376,863	3,743,534	-	-	-	10,120,397
Due from banks and financial institutions	1,875,297	692,838	-	-	-	2,568,135
Islamic financing and investing assets	7,189,650	6,299,255	11,565,259	25,695,570	11,513,388	62,263,122
Investment in Islamic sukuk	-	2,582	1,218,784	6,889,816	3,202,203	11,313,385
Other investments	-	-	864,988	1,060,962	-	1,925,950
Receivables and other assets	-	-	1,464,071	-	-	1,464,071
Total assets	15,441,810	10,738,209	15,113,102	33,646,348	14,715,591	89,655,060
Customers' deposits	24,590,701	21,606,229	7,894,737	11,553,315	142,442	65,787,424
Due to banks and other financial institutions	53,890	147,957	1,286,129	-	-	1,487,976
Sukuk financing instruments	-	30,188	90,564	2,777,289	-	2,898,041
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	843,424	177,180	1,924,237	422,103	-	3,366,944
Accrued zakat	-	142,807	-	-	-	142,807
Total liabilities	25,488,015	22,104,361	11,195,667	14,752,707	4,945,697	78,486,447

Assets available to meet all of the liabilities and to cover outstanding commitments include cash, central bank balances, items in the course of collection, short term international murabahat with banks, investing and financing assets and other investments.

The Bank's Islamic derivatives will be settled on the following basis:
- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic derivatives: comprise Islamic profit rate swaps.

The table below analyses the Bank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.4 Derivative cash flows

As at 31 December 2010

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	2,552,713	2,748,360	7,181	-	5,308,254
Islamic profit rate Swaps	-	-	-	9,324,101	671,550	9,995,651
	-	2,552,713	2,748,360	9,331,282	671,550	15,303,905

As at 31 December 2009

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	3,807,118	1,332,980	3,288,135	-	8,428,233
Islamic profit rate Swaps	-	-	-	12,217,140	392,601	12,609,741
	-	3,807,118	1,332,980	15,505,275	392,601	21,037,974

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.5 Off Balance Sheet items

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

As at 31 December 2010

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	5,969,424	2,670,783	133,805	35	8,774,047
- Letters of credit	-	1,442,063	1,093,603	-	-	2,535,666
	-	7,411,487	3,764,386	133,805	35	11,309,713
Capital commitments	-	87,021	44,988	256,923	-	388,932
Total	-	7,498,508	3,809,374	390,728	35	11,698,645

As at 31 December 2009

	On Demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	7,157,079	3,120,670	206,837	-	10,484,586
- Letters of credit	-	1,599,509	1,838,109	82,325	-	3,519,943
	-	8,756,588	4,958,779	289,162	-	14,004,529
Capital commitments	-	72,840	123,346	220,071	-	416,257
Total	-	8,829,428	5,082,125	509,233	-	14,420,786

59 Risk management (continued)

59.4 Market risk

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

The Bank pays considerable attention to market risk. The Bank uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

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

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

59.4.1 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.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.4 Market risk

59.4.2 Profit rate risk

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

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

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	**Increase in basis points 2010**	**Sensitivity of profit on financing and investing assets AED'000**	Increase in basis points 2009	Sensitivity of profit on financing and investing assets AED'000
AED	**50**	**51,252**	50	53,917
USD	**50**	**8,651**	50	9,564

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.4 Market risk (continued)

59.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2010

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	9,408,777	331,038	-	-	-	132,656	9,872,471
Due from banks and financial institutions	1,057,498	720,804	215,173	197,213	85,627	80,216	2,356,531
Islamic financing and investing assets, net	51,743,422	4,393,839	17	-	17,176	1,016,613	57,171,067
Investment in Islamic sukuk	5,606,484	2,338,999	-	-	-	254,993	8,200,476
Other investments	273,700	1,075,729	181,453	8,300	159,008	74,756	1,772,946
Receivables and other assets	1,257,541	438,359	34,566	155	35,295	255,667	2,021,583
Total	69,347,422	9,298,768	431,209	205,668	297,106	1,814,901	81,395,074
Financial Liabilities:							
Customers' deposits	58,677,298	3,058,930	10,164	33,125	308,971	1,358,582	63,447,070
Due to banks and other financial institutions	3,388,460	802,553	23	171,776	5,870	40,745	4,409,427
Sukuk financing instruments	2,168,941	2,007,074	-	-	-	-	4,176,015
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,043,159	1,105,814	279,933	1,000	28,789	221,228	3,679,923
Total	70,030,401	6,974,371	290,120	205,901	343,630	1,620,555	79,464,978
Net on balance sheet financial position	(682,979)	2,324,397	141,089	(233)	(46,524)	194,346	1,930,096
Unilateral promise to buy/sell currencies	4,285,814	(4,258,683)	(44,184)	440	17,771	(1,158)	-
Cumulative currency position – long/(short)	3,602,835	(1,934,286)	96,905	207	(28,753)	193,188	1,930,096

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.4 Market risk (continued)

59.4.3 Foreign exchange risk (continued)

At 31 December 2009

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	6,237,105	5,249,090	-	-	-	125,375	11,611,570
Due from banks and financial institutions	697,169	1,466,593	200,800	15,193	84,656	92,847	2,557,258
Islamic financing and investing assets, net	44,034,275	4,772,403	89,846	-	21,760	1,006,657	49,924,941
Investment in Islamic sukuk	6,458,243	2,678,176	-	-	-	154,378	9,290,797
Other investments	528,751	963,226	185,864	8,594	180,101	59,414	1,925,950
Receivables and other assets	1,225,295	100,880	42	-	13,904	123,950	1,464,071
Total	59,180,838	15,230,368	476,552	23,787	300,421	1,562,621	76,774,587
Financial Liabilities:							
Customers' deposits	56,961,904	5,438,182	516,967	52,369	348,957	877,124	64,195,503
Due to banks and other financial institutions	651,408	790,844	22	383	943	5,451	1,449,051
Sukuk financing instruments	-	2,415,034	-	-	-	-	2,415,034
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,308,613	807,141	184,335	282	1,886	68,547	3,370,804
Total	63,674,468	9,451,201	701,324	53,034	351,786	951,122	75,182,935
Net on balance sheet financial position	(4,493,630)	5,779,167	(224,772)	(29,247)	(51,365)	611,499	1,591,652
Unilateral promise to buy/sell currencies	7,272,555	(7,293,647)	(3,757)	29,303	510	(4,964)	-
Cumulative currency position – long/(short)	2,778,925	(1,514,480)	(228,529)	56	(50,855)	606,535	1,591,652

59 Risk management (continued)

59.4 Market risk (continued)

59.4.3 Foreign exchange risk (continued)

Sensitivity analysis – impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant, including the effect of hedging instruments, on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Increase in currency rate in % 2009	Effect on profit before tax 2009 AED '000
USD	+2	38,686	+2	30,290
GBP	+2	(4)	+2	(1)
EURO	+2	575	+2	1,017

Currency	Decrease in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Decrease in currency rate in % 2009	Effect on profit before tax 2009 AED '000
USD	-2	(38,686)	-2	(30,290)
GBP	-2	4	-2	1
EURO	-2	(575)	-2	(1,017)

59.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Effect on equity 2010 AED'000	Increase in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Effect on equity 2009 AED'000
Pak Rupees	+5	-	13,629	+5	615	31,703

59 Risk management (continued)

59.4 Market risk (continued)

59.4.4 Foreign investment (continued)

Currency	Decrease in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Effect on Equity 2010 AED'000	Decrease in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Effect on Equity 2009 AED'000
Pak Rupees	-5	(1)	(12,335)	-5	551	(3,684)

59.4.5 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 available-for-sale at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	% Change in Market indices	Effect on consolidated income statement 2010 AED'000	Effect on equity 2010 AED'000	Effect on consolidated income statement 2009 AED'000	Effect on equity 2009 AED'000
NASDAQ Dubai	±5%	-	4,583	-	15,142
Abu Dhabi Stock Market	±5%	-	3,035	-	2,530
Dubai Intl Financial Exchange	±5%	-	9,351	-	8,631
Bahrain Stock Exchange	±5%	894	-	2,642	-
Saudi Stock Exchange	±5%	-	3,192	-	3,321
Doha Stock Exchange	±5%	-	1,293	-	1,230
Others	±5%	1,005	1,530	1,668	1,912

59.5 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.

59 Risk management (continued)

59.5 Operational Risk (continued)

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.

59.6 Capital management

59.6.1 Regulatory capital

The Bank's lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated balance sheet, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly / quarterly basis.

The U.A.E. Central Bank vide its circular No. 27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Further, from June 2010, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.6 Capital management (continued)

59.6.1 Regulatory capital (continued)

The ratios calculated in accordance with Basel I and Basel II are as follows:

	Basel I		Basel II	
	2010 AED'000	2009 AED'000	**2010 AED'000**	2009 AED'000
Tier 1 Capital				
Share capital	**3,797,054**	3,617,505	**3,797,054**	3,617,505
Statutory reserves	**2,731,879**	2,731,879	**2,731,879**	2,731,879
Donated land reserve	**-**	-	**276,139**	276,139
General reserves	**2,350,000**	2,350,000	**2,350,000**	2,350,000
Retained earnings	**368,723**	104,025	**368,723**	104,025
Non-controlling interest	**947,008**	4,910	**942,434**	-
	10,194,664	8,808,319	**10,466,229**	9,079,548
Less:				
Goodwill and intangibles	**(17,258)**	(34,516)	**(17,258)**	(34,516)
Cumulative deferred exchange losses	**-**	-	**(79,279)**	(74,321)
Treasury shares	**-**	(70,901)	**-**	(70,901)
	10,177,406	8,702,902	**10,369,692**	8,899,810
Tier 2 Capital				
Hedging reserves	**4,795**	22,770	**4,795**	22,770
Assets revaluation reserve	**(243,166)**	-	**(243,166)**	-
Collective impairment	**764,689**	352,814	**764,689**	352,814
Medium term wakala finance	**3,752,543**	3,752,543	**3,752,543**	3,752,543
Deductions for associates	**(551,053)**	(525,300)	**(596,950)**	(525,300)
	3,727,808	3,602,827	**3,681,911**	3,602,827
Total capital base	**13,905,214**	12,305,729	**14,051,603**	12,502,637
Risk weighted assets				
On balance sheet	**66,066,432**	61,005,391	**-**	-
Off balance sheet	**6,764,718**	7,772,421	**-**	-
Credit risk	**-**	-	**73,395,388**	64,478,003
Market risk	**-**	-	**1,986,235**	2,026,564
Operational risk	**-**	-	**3,772,256**	5,051,584
Total risk weighted assets	**72,831,150**	68,777,812	**79,153,879**	71,556,151
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**19.1%**	17.9%	**17.8%**	17.5%
Tier 1 capital to total risk weighted assets after deductions for associates	**13.6%**	12.3%	**12.7%**	12.1%

60 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 8 March 2011.

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