

Dubai Islamic Bank P.J.S.C.

**Report and consolidated financial statements
for the year ended 31 December 2011**

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

Dubai Islamic Bank P.J.S.C.

**Report and consolidated financial statements
for the year ended 31 December 2011**

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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 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.



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.

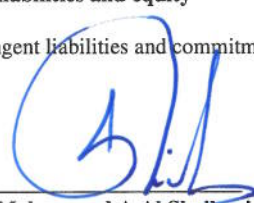
Deloitte & Touche (M.E.)

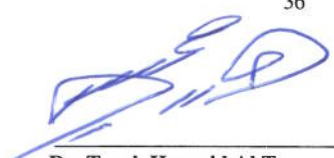
A handwritten signature in black ink, appearing to read "Sindaha".

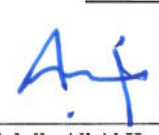
Saba Y. Sindaha
Registration Number 410
1 February 2012

**Consolidated statement of financial position
as at 31 December 2011**

	Note	2011 AED'000	2010 AED'000 (Restated)
ASSETS			
Cash and balances with Central Banks	6	12,952,319	11,247,225
Due from banks and financial institutions	7	3,043,096	2,356,531
Islamic financing and investing assets, net	8	51,586,088	57,171,067
Investments in Islamic sukuk	9	12,560,426	8,200,476
Other investments	10	2,034,389	1,772,946
Investments in associates	11	2,336,439	3,176,904
Properties under construction	12	105,284	524,165
Properties held for sale	13	504,472	544,959
Investment properties	14	1,785,205	1,922,911
Receivables and other assets	15	3,099,336	2,296,873
Property, plant and equipment	16	581,410	653,086
Goodwill	17	-	17,258
Total assets		90,588,464	89,884,401
LIABILITIES			
Customers' deposits	21	64,771,317	63,447,070
Due to banks and financial institutions	22	4,052,433	4,409,427
Sukuk financing instruments	23	4,173,983	4,176,015
Medium term wakala finance	24	3,752,543	3,752,543
Payables and other liabilities	25	3,543,355	3,679,923
Accrued zakat	28	121,076	146,336
Total liabilities		80,414,707	79,611,314
EQUITY			
Share capital	29	3,797,054	3,797,054
Statutory reserve	30	2,731,879	2,731,879
Donated land reserve	30	267,085	276,139
General reserve	30	2,350,000	2,350,000
Exchange translation reserve	30	(122,218)	(91,541)
Investments fair value reserve	31	(831,849)	(243,166)
Hedging reserve	33	-	10,656
Retained earnings		943,484	495,058
Equity attributable to equity holders of the Parent		9,135,435	9,326,079
Non-controlling interests	35	1,038,322	947,008
Total equity		10,173,757	10,273,087
Total liabilities and equity		90,588,464	89,884,401
Contingent liabilities and commitments	36	18,665,850	24,266,184


H. E. Mohammad A. Al Shaibani
Chairman


Dr. Tarek Humaid Al Tayer
Vice Chairman


Abdulla Ali Al Hamli
Chief Executive Officer

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

**Consolidated income statement
for the year ended 31 December 2011**

	Notes	2011 AED'000	2010 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	38	3,448,506	3,221,695
Income from Islamic sukuk		517,332	376,260
Income from International murabahats and wakala, short term	39	83,133	36,313
Gain from other investments	40	39,036	136,163
Commissions, fees and foreign exchange income	41	700,587	687,030
Income from investment properties	42	70,042	90,166
Income from sale of properties held for sale	43	15,390	14,498
Other income	44	130,837	140,006
Gain on buy back of sukuk financing instrument	23	-	6,418
Total income		5,004,863	4,708,549
EXPENSES			
Personnel expenses	45	(908,883)	(817,819)
General and administrative expenses	46	(563,409)	(542,943)
Depreciation of investment properties	14	(24,205)	(22,669)
Impairment loss on financial assets, net	47	(994,964)	(801,055)
Impairment loss on non-financial assets, net	48	(91,948)	(62,824)
Total expenses		(2,583,409)	(2,247,310)
Profit before depositors' share and tax		2,421,454	2,461,239
Depositors' share of profits	49	(1,386,808)	(1,435,631)
Operating profit for the year		1,034,646	1,025,608
Share of profit/(loss) from associates	11	28,551	(1,099,891)
Gain on acquiring controlling interest	20	-	637,038
Profit for the year before tax		1,063,197	562,755
Income tax expense	26	(6,782)	(3,492)
Profit for the year		1,056,415	559,263
Attributable to:			
Equity holders of the parent		1,010,141	553,153
Non-controlling interests		46,274	6,110
Profit for the year		1,056,415	559,263
Basic and diluted earning per share attributable to the equity holders of the parent (AED)	50	AED 0.26	AED 0.15

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

**Consolidated statement of comprehensive income
for the year ended 31 December 2011**

	2011 AED'000	2010 AED'000 (Restated)
<i>Profit for the year</i>	1,056,415	559,263
<i>Other comprehensive (loss)/income</i>		
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
<i>Restatement:</i>									
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.

- | | |
|---|---|
| <ul style="list-style-type: none"> • Amendments to IAS 1
<i>Presentation of Financial Statements</i> (as part of Improvements to IFRSs issued in 2010) | <p>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.</p> |
| <ul style="list-style-type: none"> • Amendments to IFRS 7
<i>Financial Statements : Disclosures</i> | <p>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.</p> |
| <ul style="list-style-type: none"> • IFRS 9 <i>Financial instruments</i> | <p>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.</p> |

IFRS 9 Financial Instruments: Recognition and Measurement

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) in advance of its effective date. The Bank has chosen 1 January 2011 as its date of initial application (i.e. the date on which the Bank has assessed its existing financial assets). The Standard has been applied retrospectively and as permitted by IFRS 9, comparative amounts have not been restated.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

**2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years)
(continued)**

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

The financing instruments (i.e. Islamic Sukuks) are measured at amortized cost only if:

- (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as fair value through profit or loss ("FVTPL"). Additionally, even if the asset meets the amortised cost criteria, the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. The Bank has elected not to designate any financing instruments (i.e. Islamic Sukuks) as FVTPL under the fair value option.

Only financial assets that are classified as measured at amortized cost are tested for impairment.

All Islamic derivatives are classified as at FVTPL, except if designated in an effective cash flow hedge or hedge of a foreign operation hedge accounting relationship. In accordance with IFRS 9, embedded derivatives within the scope of that Standard are not separately accounted for as financial assets.

Investments in equity instruments not held for trading are designated by the bank as at fair value through other comprehensive income ("FVTOCI") as the equity investments are not held for trading. If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income are recognised in other comprehensive income and are not subsequently reclassified to statement of income.

The management has reviewed and assessed all of the Bank's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Bank's investments in financing instruments meeting the required criteria are measured at amortized cost; and
- the Bank's equity investments that are not held for trading have been designated as at FVTOCI.

The change in accounting policy has been applied retrospectively, in accordance with the transitional provisions of IFRS 9, where no restatement of comparative figures was applied.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

**2.1 New and revised IFRSs affecting amounts reported in the current year (and/or prior years)
(continued)**

IFRS 9 Financial Instruments: Recognition and Measurement (continued)

The impact of this change in accounting policy at the beginning of the current year (as at 1 January 2011) is as follows:

	Investments fair value reserve AED'000	Retained earnings AED'000
<i>Investment in AFS Islamic Sukuks</i>		
▪ Reversal of related revaluation reserve	(4,784)	-
▪ Impact of funded income at effective profit rate in previous periods	-	252
<i>Other equity investments</i>		
▪ 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)
	<u>(441,973)</u>	<u>(36,070)</u>
	=====	=====

Had IFRS 9, not been adopted during the current year, the consolidated income statement would have been impacted by a decrease in net profit by AED 34.19 million resulting from fair value changes in FVTPL investments.

Additional disclosures required, reflecting the revised classification and measurement of financial assets of the Bank as a result of adopting IFRS 9, are shown in Notes 9, 10, 31 and 56 to these consolidated financial statements.

2.2 New and revised IFRSs applied with no material effect on the consolidated financial statements

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

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

• Amendments to IFRS 3 *Business Combination*

As part of *Improvements to IFRSs* issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure').

The application of the amendments has had no effect on the amounts reported in the current year because the Bank has not acquired any new entity in the current year.

• IAS 24 *Related Party Disclosures* (as revised in 2009)

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not identified any entity, which could have been considered as related party.

• IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2010)

These amendments relate to clarification of disclosure requirements.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

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

- Amendments to IAS 32 *Classifications of Rights Issues*.

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

The application of the amendments has had no effect on the amounts reported in the current and prior years because the Bank has not issued instruments of this nature.

- Amendments to IFRIC 13 *Customer Loyalty Programmes*

These amendments relate to fair value of award credits.

- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments has not had material effect on the Bank's consolidated financial statements.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Bank has not entered into any transactions of this nature.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

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

- *Improvements to IFRSs* issued in 2010 Except for the amendments to IFRS 9 and IAS 1 described earlier in section 2.1, the application of *Improvements to IFRSs* issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

2.3 New and revised IFRSs is in issue but not yet effective

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IFRS 7 <i>Financial Instruments : Disclosure – Transfer of Financial Assets</i>	1 July 2011
• Amendments to IFRS 7 <i>Financial Instruments : Disclosure – Enhancing Disclosures about Offsetting of Financial Assets and Financial Liabilities</i>	1 January 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	1 January 2013
• IFRS 11 <i>Joint Arrangements</i>	1 January 2013
• IFRS 12 <i>Disclosure of interests in other entities</i>	1 January 2013
• IFRS 13 <i>Fair Value Measurement</i>	1 January 2013
• Amendments to IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	1 July 2012
• Amendments to IAS 12 <i>Deferred Tax – Recovery of Underlying Assets</i>	1 January 2012
• IAS 19 (as revised in 2011) <i>Employee Benefits</i>	1 January 2013
• IAS 27 (as revised in 2011) <i>Separate Financial Statements</i>	1 January 2013
• IAS 28 (as revised in 2011) <i>Investments in Associates and Joint Ventures</i>	1 January 2013
• Amendments to IAS 32 <i>Financial Instruments : Presentation – Offsetting of Financial Assets and Financial Liabilities</i>	1 January 2014
• IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013

Management has not yet had an opportunity to consider the potential impact of the adoption of these standards and interpretations.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3 Definitions**

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

3.1 Murabahat

An agreement whereby the Bank sells to a customer a commodity or asset, which the Bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

3.2 Salam finance

An agreement whereby the Bank purchases specified commodity and pays full price of a commodity in advance, whereas the customer delivers the goods with certain specifications and certain quantity on the agreed future date(s). i.e. purchase of commodity for deferred delivery by the customer in exchange for upfront payment of the full purchase price by the purchaser (the Bank).

3.3 Istisna'a

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

3.4 Ijarah

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

3.5 Musharaka

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

3.6 Mudaraba

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

3.7 Wakala

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

3.8 Sukuk

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies****4.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No.2624/2008 dated 12 October 2008, the Bank's exposure in Cash and balances with Central Banks, Balances and deposits with banks and other financial institutions, International murabahat with financial institutions, short term and other investments outside the U.A.E. have been presented under the respective explanatory notes to the consolidated financial statements.

4.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of Dubai Islamic Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank") as set out in Note 19. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Bank.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Bank's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Bank's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Bank's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.

**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 financing, 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

4 Significant accounting policies (continued)

4.7 Investment in Islamic Sukuk

4.7.1 Investments in Islamic Sukuk - Per IFRS 9

Investments in Islamic Sukuk are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Investments in Islamic Sukuk meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective yield method less any impairment, with profit recognised on an effective yield basis in income from investments in Islamic Sukuk in the consolidated income statement.

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

The Bank may irrevocably elect at initial recognition to classify investment in Islamic Sukuk that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost. At the reporting date, the Bank has elected not to designate any investments in Islamic Sukuk as FVTPL under the fair value option.

Impairment of Islamic Sukuk

Islamic Sukuks measured at amortised cost are assessed for impairment at the end of each reporting period. Islamic Sukuks are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the Islamic Sukuks, the estimated future cash flows of the asset have been affected.

4.7.2 Investments in Islamic Sukuk - Per IAS 39 - For comparatives only

Held to maturity

Investments in Islamic Sukuk which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity. Held to maturity investments in Islamic Sukuk are carried at amortised cost, using effective profit rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective profit rate method.

If there is objective evidence that an impairment on held to maturity investments in Islamic Sukuk carried at amortised cost has been incurred, the amount of impairment loss recognised is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective profit rate, with the resulting impairment loss, if any, in the consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

4 Significant accounting policies (continued)

4.7.2 Investments in Islamic Sukuk - Per IAS 39 - For comparatives only (continued)

Available for sale investments

Investments in Islamic Sukuk not classified as “held to maturity” are classified as “available for sale” and are stated at fair value.

Available for sale investments in Islamic Sukuk are initially recognised at fair value plus any directly attributable transaction cost and are subsequently measured at fair value.

After initial recognition, investments which are classified as “available for sale” are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income and recorded in the cumulative changes in fair value with the exception of impairment losses, profit calculated using the effective yield method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is reclassified to consolidated income statement.

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

4.8 Other investments

4.8.1 Other investments classification- Per IFRS 9

Investments carried at fair value through profit or loss

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

Financial assets measured at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised is included in the net investment income in the consolidated income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in consolidated statement of income when the Bank’s right to receive the dividends is established.

Investments carried at fair value through other comprehensive income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate other investments as at fair value through other comprehensive income (FVTOCI). Designation at FVTOCI is not permitted if the equity investment is held for trading.

Other investments are held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

4 Significant accounting policies (continued)

4.8 Other investments (continued)

4.8.1 Other investments classification- Per IFRS 9 (continued)

Investments carried at fair value through other comprehensive income (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the cumulative changes in fair values. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the cumulative changes in fair value is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in consolidated income statement when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investments.

4.8.2 Other investments classification - Per IAS 39 - For comparatives only

Investments carried at fair value through profit or loss

Financial assets are classified at fair value through profit or loss ("FVTPL") where the financial assets is either held for trading or designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short- term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss arising on re-measurement in the consolidated income statement.

Available for sale investments

Investments not classified as "FVTPL" are classified as "available for sale" and are stated at fair value.

If available for sale investment is impaired, the difference between the acquisition cost and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available for sale financial asset, subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity.

Reclassification of other investments

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies (continued)****4.8 Other investments (continued)****4.8.3 Derecognition of other investments**

The Bank derecognises an investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

4.9 Fair values**4.9.1 Fair values - Financial instruments**

For quoted investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business at the end of reporting period. Bid prices are used for assets and offer prices are used for liabilities. In accordance with IAS 39, unquoted instruments were stated at cost as at 31 December 2010.

For unquoted investments not actively traded in organised financial markets fair value is determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market.

The fair value of unilateral promise to buy/sell currencies is calculated by reference to foreign exchange rates with similar maturities.

4.9.2 Fair values – non financial assets

For investments in properties, fair value is determined periodically on the basis of independent professional valuations.

4.10 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies, by having active representation at the Board of Directors or Management Committees who has power to participate in the financial and operating policy of the company. Significant influence is assessed on an ongoing basis.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments. After the application of the equity method, the Bank determines whether it is necessary to recognise any impairment loss on the Bank's investment in its associates. The Bank determines at each reporting date whether there is objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount and recognises the amount in the consolidated income statement.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies (continued)****4.10 Investments in associates (continued)**

Where a Bank transacts with an associate, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

4.11 Fund management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity.

4.12 Properties under construction

Properties in the course of construction for sale are classified as properties under construction. Unsold properties and sold properties which have not met the revenue recognition criteria are stated at the lower of cost or net realisable value. Cost includes the cost of land, infrastructure, construction and other related expenditure such as professional fees and engineering costs attributable to the project, which are recognised as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are recognised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. Upon completion, cost in respect to unsold properties is eliminated from properties under construction and transferred to properties held for sale.

4.13 Properties held for sale

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

Direct costs from the start of the project up to completion of the project are capitalised. Completion is defined as the earlier of issuance of a certificate of practical completion, or when management considers the project to be completed. The cost of land and costs incurred in the course of development relating to properties sold during the year are transferred to cost of revenues.

4.14 Cost of sale of property

Cost of sale of property includes the cost of land and development costs. Development costs include the cost of infrastructure and construction. The cost of sale in respect of apartments is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

4.15 Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation on investment in buildings is charged on a straight-line basis over 25 years.

Notes to the consolidated financial statements for the year ended 31 December 2011 (continued)

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies (continued)****4.18 Impairment of tangible and intangible assets excluding goodwill**

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.19 Investments in joint ventures

The Bank's interests in joint ventures, which are defined as a contractual arrangement whereby the Bank and other parties undertake an economic activity that is subject to joint control, are accounted for under the proportionate consolidation method whereby the Bank accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

The reporting dates of the joint venture and the Bank are identical and the joint venture's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

4.20 Business combination

Acquisitions of businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interests issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are generally recognised in consolidated income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

4 Significant accounting policies (continued)

4.20 Business combination (continued)

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal Banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in consolidated income statements as gain on acquiring controlling interest.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Bank in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates, with the corresponding gain or loss being recognised in consolidated income statement.

When a business combination is achieved in stages, the Bank's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Bank obtains control) and the resulting gain or loss, if any, is recognised in consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to consolidated income statement where such treatment would be appropriate if that interest were disposed of.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies (continued)****4.20 Business combination (continued)**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

4.21 Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

4.22 Customers' deposits, due to banks and financial institutions and Medium term wakala finance

Customers' deposits, due to banks and financial institutions and Medium term wakala finance are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

4.23 Sukuk financing instruments**4.23.1 Non-convertible sukuk**

Sukuk financing instruments are initially measured at fair value, net of transaction costs, and then are subsequently measured at amortised cost using the effective profit rate method, with profit expense recognised on an effective yield basis.

The effective profit rate method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies (continued)****4.35 Derivative financial instruments (continued)**

When Islamic derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to Islamic derivatives designated as hedging instruments in a fair value, cash flow or net investment hedges provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in 'Net profit income'.

4.35.1 Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued.

4.35.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****4 Significant accounting policies (continued)****4.35.3 Derivatives that do not qualify for hedge accounting**

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-profit revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

4.36 Unilateral promise to buy/sell currencies (the Promise)

The promises are stated at fair value. The fair value of a promise is the equivalent of the unrealised gain or loss from marking to market the promise using prevailing market rates. The promise with positive market value (unrealised gain) are included in other assets and the promise with negative market value (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

4.37 Revenue recognition**4.37.1 Income from investing and financing assets**

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit rate method. The effective profit rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. The effective profit rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

4.37.2 Murabahat

Murabahat income is recognised on an effective profit rate basis over the period of the contract based on the principal amounts outstanding.

4.37.3 Salam finance

Salam income is recognised on effective profit rate basis over the period of contract based on salam capital outstanding.

4.37.4 Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the bank's total Istisna'a cost) is accounted for on a time- apportioned basis.

4.37.5 Ijarah

Ijarah income is recognised on an effective profit rate basis over the Ijarah term.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

4 Significant accounting policies (continued)

4.37.6 Musharaka

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

4.37.7 Mudaraba

Income or losses on mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

4.37.8 Wakala

Wakala income is recognised on an effective profit rate basis over the Wakala term.

4.37.9 Sukuk

Income is accounted for on a time-apportioned basis over the term of the Sukuk.

4.37.10 Fee and commission income

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

4.37.11 Dividends

Dividends from other investments in equities are recognised when the right to receive the dividend is established.

4.37.12 Sale of property

Revenue on sale of plots is recognised on the basis of the full accrual method as and when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's initial investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property; and
- The Bank has transferred to the buyer the significant risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

4.38 Forfeited income

According to the Fatwa and Sharia'a Supervisory Board, the Bank is required to identify any income deemed to be derived from transactions not acceptable under Islamic Sharia'a regulations and to set aside such amount in a separate account used to pay for local social activities.

4.39 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****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'.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****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:

**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)

5.1 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:

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

5.5 Islamic derivative financial instruments (continued)

- a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

6 Cash and balances with Central Banks

	2011 AED'000	2010 AED'000 (Restated)
Cash in hand	1,494,417	1,374,754
Balances with Central Banks:		
- Current accounts	773,160	2,664,847
- Reserve requirements	4,162,897	3,905,838
- International murabahat with Central Bank – short term	6,521,845	3,301,786
	<u>12,952,319</u>	<u>11,247,225</u>

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
	<u>12,952,319</u>	<u>11,247,225</u>

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
	<u>3,043,096</u>	<u>2,356,531</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

7 Due from banks and financial institutions (continued)

Balances and deposits with banks and financial institutions by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Within the U.A.E.	2,672,090	2,019,539
Outside the U.A.E.	371,006	336,992
	3,043,096	2,356,531

8 Islamic financing and investing assets, net

	2011 AED'000	2010 AED'000 (Restated)
Islamic financing Assets		
Commodities murabahat	4,254,785	5,495,201
International murabahat - long term	1,550,959	1,661,426
Vehicles murabahat	5,841,766	6,546,265
Real estate murabahat	4,580,452	5,187,596
Total murabahat	16,227,962	18,890,488
Istisna'a	6,170,597	7,289,783
Home finance ijara	12,472,203	12,225,198
Other ijaras	8,824,658	10,032,307
Salam	3,139,219	1,399,132
Islamic credit cards	454,715	431,953
	47,289,354	50,268,861
Deferred income	(2,983,812)	(3,834,249)
Contractors and consultants' Istisna'a contracts	(249,840)	(524,002)
Provisions for impairment	(3,508,555)	(2,824,393)
	40,547,147	43,086,217
Islamic investing Assets		
Musharakat	6,124,109	9,717,533
Mudaraba	3,592,015	3,709,791
Wakalat	1,745,499	790,207
	11,461,623	14,217,531
Provision for impairment	(422,682)	(132,681)
	11,038,941	14,084,850
Islamic financing and investing assets, net	51,586,088	57,171,067

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

8 Islamic financing and investing assets, net (continued)

Islamic financing and investing assets by industry group and geography are as follows:

	2011		
	U.A.E. 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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

9 Investments in Islamic Sukuk

- 9.1 The analysis of the Bank's investment in Islamic Sukuk as at 31 December 2011 (classified in accordance with IFRS 9) is as follows:

	2011 AED'000
Investment in Islamic Sukuk measured at amortised cost	
Within U.A.E.	11,946,910
Other G.C.C. Countries	128,899
Rest of the World	484,617
Total	12,560,426

- 9.2 The analysis of the Bank's investment in Islamic Sukuk as at 31 December 2010 (classified in accordance with IAS 39) is as follows:

	2010 AED'000 (Restated)
Held to maturity – at amortised cost	
Within U.A.E.	6,567,730
Other G.C.C. Countries	136,705
Rest of the World	300,890
	7,005,325
Available for sale	
Within U.A.E.	1,195,151
Total	8,200,476

In accordance with IAS 39, held to maturity investments in Islamic sukuk as at 31 December 2010 were measured at amortised cost and available for sale investments in Islamic sukuk after initial recognition were re-measured at fair value with changes in fair value recognised in other comprehensive income.

10 Other investments

- 10.1 The analysis of the other investments as at 31 December 2011 (classified in accordance with IFRS 9).

	2011 AED'000
Investments carried at fair value through profit or loss	52,987
Investments carried at fair value through other comprehensive income	1,981,402
	2,034,389

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

10 Other investments (continued)

The analysis of the other investments as at 31 December 2011 (classified in accordance with IFRS 9) by geography is as follows:

	31 December 2011			
	Within U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of the World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Quoted equity instruments	4,305	-	48,682	52,987
Investments measured at fair value through other comprehensive income				
Quoted equity instruments	338,571	161,601	33,602	533,774
Unquoted equity instruments	962,748	61,685	68,387	1,092,820
Unquoted investment funds	122,117	5,851	226,840	354,808
	1,423,436	229,137	328,829	1,981,402
Total	1,427,741	229,137	377,511	2,034,389

10.2 The analysis of the other investments as at 31 December 2010 (classified in accordance with IAS 39).

	2010 AED'000 (Restated)
Investments carried at fair value through profit or loss	108,406
Available for sale investments	1,664,540
	1,772,946

The analysis of the other investments as at 31 December 2010 (classified in accordance with IAS 39) by geography is as follows:

	31 December 2010 (Restated)			
	Within U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Quoted equity instruments	1,013	78,185	29,208	108,406
Available for sale investments				
Quoted equity instruments	443,654	122,526	35,168	601,348
Unquoted equity instruments	223,148	124,430	191,624	539,202
Unquoted investment funds	157,855	9,182	356,953	523,990
	824,657	256,138	583,745	1,664,540
Total	825,670	334,323	612,953	1,772,946

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

10 Other investments (continued)

Industry distribution of other investments is as follows:

	2011	2010
	AED'000	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
	<u>2,034,389</u>	<u>1,772,946</u>

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. Ejara 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	<u>(841,817)</u>
Net gain/(loss) on reclassification of investment at FVTOCI	<u>-</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

11 Investments in associates (continued)

11.2 Investments in associates and share of profits/(losses)

	2011	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)
	<u>2,336,439</u>	<u>3,176,904</u>

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)	-
	<u>8,382</u>	<u>130,228</u>

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)
<i>Share of associates' financial positions:</i>		
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)
	<u>2,336,439</u>	<u>3,176,904</u>
<i>Share of associates' revenues and results:</i>		
Revenues	248,970	334,026
	<u>28,551</u>	<u>(1,099,891)</u>

**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	2010
	AED'000	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
	<u>2,336,439</u>	<u>3,176,904</u>

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	2010
	AED'000	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	<u>105,284</u>	<u>524,165</u>

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	2010
	AED'000	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	<u>504,472</u>	<u>544,959</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

14 Investment properties

14.1 Movement in investment properties is as follows:

			Investment properties under construction	
2011	Land AED'000	Other Real Estate AED'000	AED'000	Total AED'000
Cost:				
Balance at the beginning of the year - restated	1,223,131	872,977	-	2,096,108
Additions	45,508	219,378	-	264,886
Transfer during the year	-	-	450,266	450,266
Disposals (refer note 14.2)	(787,513)	-	-	(787,513)
Exchange effect	-	(11,306)	-	(11,306)
Other	(9,054)	-	-	(9,054)
Balance at the end of the year	472,072	1,081,049	450,266	2,003,387
Accumulated depreciation/provision for impairment:				
Balance at the beginning of the year - restated	-	173,197	-	173,197
Charge for the year	-	24,205	-	24,205
Impairment, net	-	19,401	-	19,401
Exchange effect	-	1,379	-	1,379
Balance at the end of the year	-	218,182	-	218,182
Carrying amount at the end of year	472,072	862,867	450,266	1,785,205
2010 - (Restated)				
Cost:				
Balance at the beginning of the year	1,224,117	912,973	-	2,137,090
Additions	-	8,757	-	8,757
Disposals	(936)	(4,193)	-	(5,129)
Exchange effect	(50)	(44,560)	-	(44,610)
Balance at the end of the year	1,223,131	872,977	-	2,096,108
Accumulated depreciation/provision for impairment:				
Balance at the beginning of the year	300	140,502	-	140,802
Charge for the year	-	22,669	-	22,669
Impairment, net	-	13,629	-	13,629
Disposals	(300)	(626)	-	(926)
Exchange effect	-	(2,977)	-	(2,977)
Balance at the end of the year	-	173,197	-	173,197
Carrying amount at the end of year	1,223,131	699,780	-	1,922,911

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

14 Investment properties (continued)

14.2 Disposal of investment properties includes a sale of plots of land amounting AED 784.9 million. Effective 30 December 2011, the Bank entered into a sale and purchase agreement to sell properties held for future development and/or sale with a carrying value of AED 784.9 million. The salient terms and conditions of the sales and purchase agreement are as follows:

- The sales consideration is receivable on or before 30 December 2016;
- The sales consideration can be settled in cash or in kind or a combination of cash and in kind, at the discretion of the Purchaser. In case full settlement of consideration or part thereof is in kind, assets to be offered in lieu of the full sales consideration or part thereof, must be of equal value (as verified by an independent real estate consultant jointly appointed by the Purchaser and Seller) to the amount due and payable under the agreement; and
- The commitments on the remaining purchase price for the plots of lands remain with the Bank.

The net sales consideration has been determined as follows:

	2011 AED'000
Sales consideration receivable on or before 30 December 2016	1,062,757
Deferred income on the assumption that settlement is on 30 December 2016	(277,902)
Net sales consideration	784,855
Cost of plots	(784,855)
Net gain/(loss) on sales of plots	-

14.3 Investments properties by geography are as follows:

	2011 AED'000	2010 AED'000 (Restated)
Land		
In U.A.E.	420,339	1,171,398
Rest of World	51,733	51,733
	472,072	1,223,131
Other real estate		
In U.A.E.	568,037	353,121
Rest of World	508,548	519,856
	1,076,585	872,977
Accumulated depreciation and impairment	(213,718)	(173,197)
	862,867	699,780
Investment property under construction		
In U.A.E.	450,266	-
	1,313,133	699,780
	1,785,205	1,922,911

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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	2010
	AED'000	AED'000
		(Restated)
Accrued profit on investing, financing and sukuk	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
	<u>3,099,336</u>	<u>2,296,873</u>

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	<u>398,785</u>	<u>84,128</u>	<u>376,908</u>	<u>410,372</u>	<u>3,968</u>	<u>25,075</u>	<u>1,299,236</u>
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	<u>44,282</u>	<u>60,605</u>	<u>272,383</u>	<u>265,726</u>	<u>3,154</u>	<u>-</u>	<u>646,150</u>
Carrying amount							
Balance at the end of the year – restated	<u>354,503</u>	<u>23,523</u>	<u>104,525</u>	<u>144,646</u>	<u>814</u>	<u>25,075</u>	<u>653,086</u>

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	
			<u>2011</u>	<u>2010</u>
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	
				<u>2011</u>	<u>2010</u>
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	
				<u>2011</u>	<u>2010</u>
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 Beteiligungsverwaltung 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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	2010
	AED'000	AED'000 (Restated)
Current accounts	218,294	51,517
Investment deposits	3,834,139	4,357,910
	<u>4,052,433</u>	<u>4,409,427</u>

Due to banks and financial institutions by geography is as follows:

	2011	2010
	AED'000	AED'000 (Restated)
Within U.A.E.	3,879,534	3,993,101
Outside U.A.E.	172,899	416,326
	<u>4,052,433</u>	<u>4,409,427</u>

23 Sukuk financing instruments

	2011	2010
	AED'000	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
	<u>4,173,983</u>	<u>4,176,015</u>

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 sukuk 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****23 Sukuk financing instruments (continued)****23.1 Sukuk financing instruments issued by the Bank (continued)**

During 2010, sukuks amounting to AED 58 million (USD 15.8 million) were bought back at a discount, including buy back through a cash tender offer to sukuk holders. The Bank recognised AED 6.4 million in 2010 as gain on sukuk buy back which is included under other income. These sukuk certificates will be cancelled upon maturity when the Bank will re-purchase the Co Owned Assets.

23.2 Sukuks financing instruments issued by a subsidiary

During 2008, a subsidiary of the Bank issued Sharia'a compliant, non-convertible sukuk in the form of Trust Certificates for the total value of AED 1,100 million (at a rate of 3 months EIBOR Plus 0.225% per annum) and convertible sukuk for a total value of USD 300 million (at a fixed profit rate of 4.31% per annum), which are listed on NASDAQ Dubai. The sukuk certificates mature in 2013.

In accordance with the terms of the subscription, each Trust Certificate may be redeemed at the option of the Certificate holder or the subsidiary as follows:

- a. At the option of the Certificate holder through "Voluntary Early Redemption" at any time one year after the issue date subject to satisfying certain conditions;
- b. At the option of the subsidiary at any time 3 years after the issue date through "Optional Partial Redemption" subject to satisfying certain condition.

In both the options, the subsidiary will either issue the share of the subsidiary at the relevant exchange price or cash will be paid.

At the time of final maturity, any remaining Trust Certificates will be redeemed in full by a subsidiary in cash at face value plus any unpaid profit amount.

24 Medium term wakala finance

The Bank opted to re-categorise wakala deposits received in 2008 from UAE Ministry of Finance amounting to AED 3.75 billion to Tier 2 qualifying finance ("Tier 2 finance"). The conversion process has been approved by the Shareholders in the Extraordinary General Meeting held in April 2009. The wakala deposits provided by the UAE Ministry of Finance (the Muwakkil) to the Bank (the Wakeel) will be used for investments for a tenor of seven years commencing from the date of re-categorisation and will mature in December 2016. Wakala profit will be paid every three months based on the expected profit rate range of 4.00% - 5.25% per annum.

In accordance with the terms of wakala agreement, the Muwakkil's rights and claims on the Wakeel in respect of wakala are wholly subordinated to the rights and claims of all other non subordinated creditors.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

25 Payables and other liabilities

	2011	2010
	AED'000	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	2010
	AED'000	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	2010
	AED'000	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	<u>(6,782)</u>	<u>(3,492)</u>

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)	<u>110,152</u>	<u>101,737</u>

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	<u>140,576</u>	<u>146,326</u>

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	<u>120,199</u>	<u>146,326</u>
Zakat on depositors' investment risk reserve (note 52)	<u>877</u>	<u>10</u>
	<u>121,076</u>	<u>146,336</u>

* Zakat on shareholders' equity is stated net of AED 425,000 relating 2010.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

29 Share capital

	2011		2010 (Restated)	
	Number of Shares'000	Amount in AED'000	Number of shares'000	Amount in AED'000
Authorised				
Ordinary shares of AED 1 each	<u>3,797,054</u>	<u>3,797,054</u>	<u>3,797,054</u>	<u>3,797,054</u>
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	<u>3,797,054</u>	<u>3,797,054</u>	<u>3,797,054</u>	<u>3,797,054</u>

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	<u>2,731,879</u>	<u>267,085</u>	<u>2,350,000</u>	<u>(122,218)</u>	<u>5,226,746</u>

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	<u>(831,849)</u>	<u>(243,166)</u>

32 Dividends paid and proposed

	2011 AED'000	2010 AED'000 (Restated)
Dividend proposed		
Cash dividend: (2011: AED 0.10 per share)	<u>379,705</u>	-
Dividend proposed and paid		
Cash dividend: (2010: AED 0.10 per share)	<u>-</u>	<u>379,705</u>

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.

	<i>Issue year</i>	<i>No of shares</i>	<i>Grant date</i>	<i>Expiry date</i>	<i>Exercise price</i>	<i>Fair value at grant date</i>
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.

<i>Year</i>	<i>Current charge to consolidated income statement AED '000</i>	<i>Charge to consolidated income statement at grant date AED '000</i>
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	2010
	AED'000	AED'000 (Restated)
<i>Contingent liabilities:</i>		
Letters of guarantee	7,510,949	8,774,047
Letters of credit	2,081,825	2,535,666
	9,592,774	11,309,713
<i>Commitments:</i>		
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

	<i>Positive fair value AED'000</i>	<i>Negative fair value AED'000</i>	<i>Notional amount total AED'000</i>	<i>Within 3 months AED'000</i>	<i>Over 3 months to 1 year AED'000</i>	<i>Over 1 year to 3 years AED'000</i>	<i>Over 3 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>
<i>Islamic Derivatives held for trading:</i>								
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*

	<i>Positive fair value AED'000</i>	<i>Negative fair value AED'000</i>	<i>Notional amount total AED'000</i>	<i>Within 3 months AED'000</i>	<i>Over 3 months to 1 year AED'000</i>	<i>Over 1 year to 3 years AED'000</i>	<i>Over 3 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>
<i>Islamic Derivatives held for trading:</i>								
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
	<u>61,074</u>	<u>14,029</u>	<u>15,303,905</u>	<u>2,552,713</u>	<u>2,748,360</u>	<u>9,331,282</u>	<u>-</u>	<u>671,550</u>

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	2010
	AED'000	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	2010
	AED'000	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	2010
	AED'000	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)
	<u>39,036</u>	<u>136,163</u>

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	2010
	AED'000	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
	<u>700,587</u>	<u>687,030</u>

42 Income from investment properties

	2011	2010
	AED'000	AED'000 (Restated)
Net rental income	70,042	72,165
Gain on sale of investment properties	-	18,001
	<u>70,042</u>	<u>90,166</u>

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	2010
	AED'000	AED'000 (Restated)
Sales proceeds	30,686	31,067
Cost of sale (note 13)	(15,296)	(16,569)
	<u>15,390</u>	<u>14,498</u>

**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
	<u>130,837</u>	<u>140,006</u>

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
	<u>908,883</u>	<u>817,819</u>

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
	<u>563,409</u>	<u>542,943</u>

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
	<u>994,964</u>	<u>801,055</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

48 Impairment loss on non-financial assets, net

	2011 AED'000	2010 AED'000 (Restated)
Impairment loss on investment in associates (note 11)	3,128	12,237
Impairment of investment in joint venture	11,661	-
Impairment of investment properties (note 14)	19,401	13,329
Impairment of properties held for sale (note 13)	40,500	20,000
Impairment of goodwill (note 17)	17,258	17,258
	91,948	62,824

49 Depositors' share of profits

	2011 AED'000	2010 AED'000 (Restated)
Share for the year	1,386,808	1,435,631
Less: Pertaining to depositors' investment risk reserve (note 52)	(636)	(511)
Transfer (to)/from depositors' investment risk reserve, net (note 52)	(33,011)	42,000
	1,353,161	1,477,120
Less: Paid during the year	(1,093,703)	(1,147,192)
Depositors' share of profit payable (note 25)	259,458	329,928
<i>Share of profits accrued to customers and financial institutions are as follows:</i>		
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 AED'000	Directors and key management personnel AED'000	Associates AED'000	Total 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	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Net operating revenue	1,835,901	1,615,121	1,227,434	1,076,996	(164,353)	(215,074)	461,320	360,219	257,753	435,656	3,618,055	3,272,918
Share of profit /(loss) of associates	-	-	37,723	25,614	(9,172)	(1,125,505)	-	-	-	-	28,551	(1,099,891)
Gain on acquiring controlling interest	-	-	-	-	-	-	-	-	-	637,038	-	637,038
Operating expense	(1,047,377)	(893,736)	(243,176)	(297,274)	(81,351)	(67,162)	(21,689)	(20,623)	(102,904)	(104,636)	(1,496,497)	(1,383,431)
Provision for impairment	(247,764)	(178,141)	(837,957)	(677,285)	-	-	-	-	(1,191)	(8,453)	(1,086,912)	(863,879)
Profit for the year before tax	540,760	543,244	184,024	128,051	(254,876)	(1,407,741)	439,631	339,596	153,658	959,605	1,063,197	562,755
Income tax											(6,782)	(3,492)
Profit for the year											1,056,415	559,263

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

54 Segmental information (continued)

Reportable segments

The following table presents assets, liabilities, equity and capital expenditure regarding the Bank's business segments:

	Retail and business banking		Wholesale Banking		Real estate		Treasury		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)		(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:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
		(Restated)		(Restated)		(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:

	<i>Domestic</i>		<i>International</i>		<i>Total</i>	
	2011	2010	2011	2010	2011	2010
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
		(Restated)		(Restated)		(Restated)
Financial assets	83,232,379	80,035,925	1,942,150	1,512,284	85,174,529	81,548,209
Non-financial assets	1,363,564	3,820,934	4,050,371	4,515,258	5,413,935	8,336,192
Total assets	84,595,943	83,856,859	5,992,521	6,027,542	90,588,464	89,884,401
Total liabilities and equity	85,856,351	84,503,973	4,732,113	5,380,428	90,588,464	89,884,401
Capital expenditure	46,785	78,869	11,353	14,434	58,138	93,303

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

55 Maturity analysis of assets and liabilities

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

At 31 December 2011

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with						
Central banks	2,353,995	5,081,320	5,517,004	-	-	12,952,319
Due from banks and						
financial institutions	2,529,596	513,500	-	-	-	3,043,096
Islamic financing and						
investing assets	4,954,901	3,201,254	8,147,347	21,965,054	13,317,532	51,586,088
Investment in Islamic sukuk	13	1,951	12,385	11,260,998	1,285,079	12,560,426
Other investments	-	-	586,761	1,447,628	-	2,034,389
Investments in associates	-	-	-	2,336,439	-	2,336,439
Properties under						
construction	-	-	-	105,284	-	105,284
Properties held for sale	-	-	-	504,472	-	504,472
Investment properties	-	-	-	1,785,205	-	1,785,205
Receivables and other assets	42,417	88,028	2,900,413	62,634	5,844	3,099,336
Property, plant and						
equipment	9,595	18,642	82,157	142,375	328,641	581,410
Goodwill	-	-	-	-	-	-
Total assets	9,890,517	8,904,695	17,246,067	39,610,089	14,937,096	90,588,464
Liabilities:						
Customers' deposits	8,200,872	6,781,147	28,294,049	21,472,142	23,107	64,771,317
Due to banks and other						
financial institutions	451,096	125,275	1,327,135	2,148,927	-	4,052,433
Sukuk financing instruments	-	2,357,074	-	1,816,909	-	4,173,983
Medium term wakala						
finance	-	-	-	3,752,543	-	3,752,543
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	-	-	121,076	-	-	121,076
Equity	-	-	379,705	(831,849)	10,625,901	10,173,757
Total liabilities and equity	10,235,124	9,437,387	30,933,564	29,327,158	10,655,231	90,588,464
Net maturities gap	(344,607)	(532,692)	(13,687,497)	10,282,931	4,281,865	-

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

55 Maturity analysis of assets and liabilities (continued)

At 31 December 2010 - restated

	Less than one month AED'000	1 - 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with						
Central banks	4,135,310	4,310,176	2,801,739	-	-	11,247,225
Due from banks and financial institutions	395,530	1,638,868	322,133	-	-	2,356,531
Islamic financing and investing assets	5,746,037	2,985,310	6,903,828	21,459,918	20,075,974	57,171,067
Investment in Islamic sukuk	14	-	240,339	6,630,716	1,329,407	8,200,476
Other investments	-	-	706,995	1,065,951	-	1,772,946
Investments in associates	-	-	-	3,176,904	-	3,176,904
Properties under construction	-	-	-	524,165	-	524,165
Properties held for sale	-	-	135,368	409,591	-	544,959
Investment properties	-	-	-	1,922,911	-	1,922,911
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,843	2,296,873
Property, plant and equipment	9,887	19,227	85,100	199,462	339,410	653,086
Goodwill	-	-	-	17,258	-	17,258
Total assets	10,347,290	9,034,525	13,288,738	35,463,214	21,750,634	89,884,401
Liabilities:						
Customers' deposits	9,098,359	6,596,396	27,085,844	20,643,365	23,106	63,447,070
Due to banks and other financial institutions	183,309	435,594	1,747,226	2,043,298	-	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	-	4,176,015
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Equity	-	-	379,705	(243,166)	10,136,548	10,273,087
Total liabilities and equity	10,716,133	7,298,417	30,890,697	27,066,957	13,912,197	89,884,401
Net maturities gap	(368,843)	1,736,108	(17,601,959)	8,396,257	7,838,437	-

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

56 Financial assets and liabilities

56.1 The table below illustrates the classification and measurements of financial assets under IFRS 9 and IAS 39 at the date of initial application, 1 January 2011.

	Original measurement Category IAS 39	New measurement Category IFRS 9	Original carrying amount AED'000	New carrying amount AED'000
Cash and balances with central banks	Amortised cost	Amortised cost	11,247,225	11,247,225
Due from banks and financial institutions	Amortised cost	Amortised cost	2,356,531	2,356,531
Islamic financing and investing assets	Financing and receivables	Amortised cost	57,171,067	57,171,067
Investment in Islamic sukuk				
- Held to maturity	Held to maturity	Amortised cost	7,005,325	7,005,325
- Available for sale	Available for sale	Amortised cost	1,195,151	1,190,619
Other investments				
<i>Investment carried at fair value through income statement</i>				
- Equity instruments held for trading	FVTPL	FVTPL	1,011	1,011
- Equity instruments designated as at FVTPL	FVTPL	FVOCI	107,395	107,395
<i>Available for sale</i>				
- 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 FVTPL	Amortised cost FVTPL	1,960,509 61,074	1,960,509 61,074
			<u>82,769,828</u>	<u>82,291,785</u>

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
	<u>1,981,402</u>	<u>118,983</u>	<u>81,579,726</u>	<u>83,680,111</u>
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
	<u>-</u>	<u>23,897</u>	<u>80,269,734</u>	<u>80,293,631</u>

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
	<u>59,284,711</u>	<u>2,859,691</u>	<u>169,480</u>	<u>19,234,327</u>	<u>81,548,209</u>
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
	<u>-</u>	<u>-</u>	<u>14,029</u>	<u>79,450,949</u>	<u>79,464,978</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

57 Fair values of financial instruments

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. 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 values 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
<i>Financial assets at FVTPL</i>				
Other investments	52,987	-	-	52,987
Islamic derivative financial assets held for trading	-	65,996	-	65,996
<i>Fair value through OCI financial assets</i>				
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
<i>Financial liabilities at FVTPL</i>				
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 values 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
<i>Financial assets at FVTPL</i>				
Other investments	108,406	-	-	108,406
Islamic derivative financial assets held for trading	-	61,074	-	61,074
<i>Available-for-sale financial assets</i>				
Quoted equities	601,348	-	-	601,348
Investment in Islamic sukuk	1,195,151	-	-	1,195,151
Total	<u>1,904,905</u>	<u>61,074</u>	<u>-</u>	<u>1,965,979</u>
<i>Financial liabilities at FVTPL</i>				
Islamic derivative financial liabilities held for trading	-	14,029	-	14,029
Total	<u>-</u>	<u>14,029</u>	<u>-</u>	<u>14,029</u>

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	<u>1,447,628</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****58 Risk management****58.1 Introduction**

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

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

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

58.1.1 Risk management structure

The Board of Directors supported by Board Risk Management Committee is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Risk Management Committee

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

Risk Management Department

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

Asset and Liability Management Committee

Asset and Liability Management Committee is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****58 Risk management (continued)****58.1 Introduction (continued)****58.1.3 Risk mitigation**

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

The Bank seeks to mitigate its credit risk exposures through diversification of financing and investment activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to reduce its credit risks.

The market risk is mitigated on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, bench mark profit rates and equity houses.

In order to mitigate liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of cash and cash equivalents.

To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

58.1.4 Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

58.2 Credit risk

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and calibrated to the Bank's internal rating scale. The models are housed with the Moody's Risk Analyst rating tool.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****58 Risk management (continued)****58.2 Credit risk (continued)*****Collateral***

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

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

Islamic derivative financial instruments

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

Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfill certain obligations to other parties. This exposes the Bank to a similar risk to financing and investing assets and these are mitigated by the same control processes and policies.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2011 AED'000	Gross maximum exposure 2010 AED'000 (Restated)
Balances with central banks	11,457,902	9,872,471
Due from banks and financial institutions	3,043,096	2,356,531
Islamic financing and investing assets	55,517,325	60,128,141
Investment in Islamic sukuk	12,560,426	8,200,476
Other investments	2,034,389	1,772,946
Receivables and other assets	3,049,410	2,076,134
	87,662,548	84,406,699
Contingent liabilities	9,592,774	11,309,713
Commitments	9,073,076	12,956,471
Total	106,328,398	108,672,883

58.2.2 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.2 Risk concentrations of the maximum exposure to credit risk (continued)

At 31 December 2011

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
U.A.E.	25,742,100	74,954,896	100,696,996
GCC	-	2,348,913	2,348,913
South Asia	1,348,936	904,869	2,253,805
Europe	-	119,629	119,629
Africa	-	139,223	139,223
Other	-	769,832	769,832
Total	27,091,036	79,237,362	106,328,398

At 31 December 2010 - restated

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
U.A.E.	25,902,054	76,508,874	102,410,928
GCC	-	3,276,653	3,276,653
South Asia	394,739	1,768,559	2,163,298
Europe	-	436,667	436,667
Africa	-	183,662	183,662
Other	-	201,675	201,675
Total	26,296,793	82,376,090	108,672,883

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure	
	2011 AED'000	2010 AED'000 (Restated)
Financial Institutions	32,528,389	18,517,858
Government	3,082,660	11,170,038
Manufacturing and services	13,615,585	14,186,895
Real Estate	26,631,306	30,515,910
Home financing	14,832,420	14,519,700
Consumer financing	10,283,752	11,393,439
Trade	5,354,286	8,369,043
Total	106,328,398	108,672,883

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.3 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For commercial financing and investing facilities, charges over real estate properties, inventory and trade receivables,
- For retail financing and investing facilities, charge over assets and mortgages over properties.

The Bank also obtains guarantees from parent companies for financings to their subsidiaries, but the benefits are not included in the above table.

58.2.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for investing and financing related financial position lines, based on the Bank's credit rating system.

At 31 December 2011

	Non-impaired exposures			Total AED'000
	Low and fair risk AED'000	Watch list AED'000	Individually impaired 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 sukuk	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
	<u>78,030,899</u>	<u>1,512,699</u>	<u>8,118,950</u>	<u>87,662,548</u>
Contingent liabilities	9,592,774	-	-	9,592,774
Commitments	9,073,076	-	-	9,073,076
	<u>18,665,850</u>	<u>-</u>	<u>-</u>	<u>18,665,850</u>
Total	<u><u>96,696,749</u></u>	<u><u>1,512,699</u></u>	<u><u>8,118,950</u></u>	<u><u>106,328,398</u></u>

**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			Total AED'000
	Low and fair risk AED'000	Watch list AED'000	Individually impaired 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 sukuk	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
	<u>76,954,369</u>	<u>2,374,425</u>	<u>5,077,905</u>	<u>84,406,699</u>
Contingent liabilities	11,309,713	-	-	11,309,713
Commitments	12,956,471	-	-	12,956,471
	<u>24,266,184</u>	<u>-</u>	<u>-</u>	<u>24,266,184</u>
Total	<u>101,220,553</u>	<u>2,374,425</u>	<u>5,077,905</u>	<u>108,672,883</u>

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			
<i>Risk rating class 1</i>	Aaa	13,528,493	12,249,828
<i>Risk rating classes 2 and 3</i>	Aa1-A3	17,328,607	12,640,826
Fair risk			
<i>Risk rating class 4</i>	Baa1-Baa3	8,986,784	19,237,170
<i>Risk rating classes 5 and 6</i>	Ba1-B3	40,733,720	40,972,960
<i>Risk rating class 7</i>	Caa1-Caa3	16,158,030	16,159,586
Watch list			
<i>Risk rating class 8</i>		1,484,948	2,334,608
Impaired			
<i>Risk rating classes 9, 10 and 11</i>		8,107,816	5,077,905
		<u>106,328,398</u>	<u>108,672,883</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.2 Credit risk (continued)

58.2.4 Credit quality per class of financial assets (continued)

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

58.2.5 Ageing analysis of watch list and past due exposures that are not impaired investing and financing assets per class of financial assets

	Not yet due	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
As at 31 December 2011	214,152	1,145,235	522,669	354,411	1,270,796	3,507,263
As at 31 December 2010 - restated	-	1,127,951	843,421	461,031	2,334,608	4,767,011

See note 8 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

58.2.6 Impairment assessment

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****58 Risk management (continued)****58.2 Credit risk (continued)****58.2.6 Impairment assessment (continued)***Collectively assessed allowances*

Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, auto murabahat, and unsecured retail financing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances, letters of credit and guarantees are assessed and provision made in a similar manner as for Islamic financing and investing assets.

58.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with Central Banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

During 2007, the Bank issued a five year sukuk AED 2,822.25 million (USD 750 million) sukuk to diversify sources of funding to support business growth going forward.

During 2009, the Bank has also opted to re-categorise wakala finance from UAE Ministry of Finance to Tier 2 capital for seven years.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of investing and financing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	March	June	September	December
2011	28%	31%	26%	21%
	=====	=====	=====	=====
2010 – restated	17%	19%	16%	18%
	=====	=====	=====	=====

58.3.2 Funding approach

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

58.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial assets and liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.3 Non-derivative cash flows (continued)

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with						
Central banks	2,267,577	5,169,220	5,543,329	-	-	12,980,126
Due from banks and financial institutions	273,836	2,464,250	-	-	-	2,738,086
Islamic financing and investing assets	6,666,872	5,285,198	12,573,792	28,202,980	18,755,600	71,484,442
Investment in Islamic sukuk	13	1,968	12,710	12,837,538	1,599,923	14,452,152
Other investments	-	-	586,761	1,447,628	-	2,034,389
Receivables and other assets	42,416	88,028	2,900,414	62,634	5,844	3,099,336
Total assets	9,250,714	13,008,664	21,617,006	42,550,780	20,361,367	106,788,531
Customers' deposits	26,514,214	14,148,104	10,645,391	16,289,557	32,127	67,629,393
Due to banks and other financial institutions	183,309	437,772	1,773,434	2,206,762	-	4,601,277
Sukuk financing instruments	-	-	2,404,861	2,361,376	-	4,766,237
Medium term wakala finance	-	-	-	4,352,950	-	4,352,950
Other liabilities	1,583,156	173,891	811,599	968,486	6,223	3,543,355
Accrued Zakat	-	-	121,076	-	-	121,076
Total liabilities	28,280,679	14,759,767	15,756,361	26,179,131	38,350	85,014,288

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.3 Non-derivative cash flows (continued)

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	4,039,601	4,406,053	2,813,137	-	-	11,258,791
Due from banks and financial institutions	337,077	1,521,681	507,552	-	-	2,366,310
Islamic financing and investing assets	8,948,557	6,989,739	13,358,379	25,667,204	17,125,545	72,089,424
Investment in Islamic sukuk	14	-	247,550	7,691,630	1,701,642	9,640,836
Other investments	-	-	706,995	1,065,951	-	1,772,946
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,844	2,296,874
Total assets	13,385,761	12,998,417	19,726,849	34,481,123	18,833,031	99,425,181
Customers' deposits	21,252,483	22,396,508	8,414,400	12,001,973	1,267,146	65,332,510
Due to banks and other financial institutions	183,309	439,950	1,799,643	2,370,226	-	4,793,128
Sukuk financing instruments	-	50,797	152,391	4,785,580	-	4,988,768
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Total liabilities	22,870,257	23,153,682	12,044,356	19,605,224	6,070,401	83,743,920

Assets available to meet all of the liabilities and to cover outstanding commitments include cash, central bank balances, items in the course of collection, short term international murabahat with banks, investing and financing assets and other investments.

The Bank's Islamic derivatives will be settled on the following basis:

- Unilateral promise to buy/sell currencies: This mainly comprise promises to either buy or sell a specified currency at a specific price and date in the future.
- Islamic derivatives: comprise Islamic profit rate swaps.

The table below analyses the Bank's Islamic derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the consolidated financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.4 Derivative cash flows

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	1,924,071	5,561,998	-	-	7,486,069
Islamic profit rate Swaps	-	-	6,588,590	2,088,363	623,006	9,299,959
	-	1,924,071	12,150,588	2,088,363	623,006	16,786,028

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	2,552,713	2,748,360	7,181	-	5,308,254
Islamic profit rate Swaps	-	-	-	9,324,101	671,550	9,995,651
	-	2,552,713	2,748,360	9,331,282	671,550	15,303,905

58.3.5 Off Balance Sheet items

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

As at 31 December 2011

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of Guarantee	-	4,897,105	1,857,537	754,045	2,262	7,510,949
- Letters of Credit	-	1,288,386	589,034	204,405	-	2,081,825
	-	6,185,491	2,446,571	958,450	2,262	9,592,774
Capital Commitments	-	-	167,082	149,493	-	316,575
Total	-	6,185,491	2,613,653	1,107,943	2,262	9,909,349

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.3 Liquidity risk and funding management (continued)

58.3.5 Off Balance Sheet items (continued)

As at 31 December 2010 - restated

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	5,969,424	2,670,783	133,805	35	8,774,047
- Letters of credit	-	1,442,063	1,093,603	-	-	2,535,666
	-	7,411,487	3,764,386	133,805	35	11,309,713
Capital commitments	-	87,021	44,988	256,923	-	388,932
Total	-	7,498,508	3,809,374	390,728	35	11,698,645

58.4 Market risk

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

The Bank pays considerable attention to market risk. The Bank uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.4 Market risk (continued)

58.4.1 Profit margin risk

The Bank is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Bank does not provide contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba by which the depositors and investment account holders agree to share the profit or loss made by the Bank's Mudaraba asset pool over a given period.

58.4.2 Profit rate risk

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

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

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net income for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

Currency	Increase in basis points	Sensitivity of profit on Islamic financing and investing assets 2011 AED'000	Sensitivity of profit on Islamic financing and investing assets 2010 AED'000 (Restated)
AED	50	48,296	51,252
USD	50	23,648	8,651

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk – on- and off-balance sheet financial instruments

At 31 December 2011

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	12,464,366	384,235	-	3,291	-	100,427	12,952,319
Due from banks and financial institutions	2,017,030	789,822	197,843	6,697	15,863	15,841	3,043,096
Islamic financing and investing assets, net	46,144,615	4,275,037	61,878	-	12,584	1,091,974	51,586,088
Investment in Islamic sukuk	5,180,940	6,894,889	-	-	-	484,597	12,560,426
Other investments	931,468	768,337	142,503	922	101,916	89,243	2,034,389
Receivables and other assets	2,774,121	138,862	-	-	12,439	72,789	2,998,211
Total	69,512,540	13,251,182	402,224	10,910	142,802	1,854,871	85,174,529
Financial Liabilities:							
Customers' deposits	58,165,539	4,930,075	22,987	32,162	161,086	1,459,468	64,771,317
Due to banks and other financial institutions	3,741,153	229,220	-	678	2,443	78,939	4,052,433
Sukuk financing instruments	1,100,000	3,073,983	-	-	-	-	4,173,983
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,977,249	358,433	167,594	594	2,375	37,110	3,543,355
Total	69,736,484	8,591,711	190,581	33,434	165,904	1,575,517	80,293,631
Net on balance sheet	(223,944)	4,659,471	211,643	(22,524)	(23,102)	279,354	4,880,898
Unilateral promise to buy/sell currencies	5,906,329	(5,727,195)	(147,315)	10,887	(42,305)	(401)	-
Currency position - long/(short)	5,682,385	(1,067,724)	64,328	(11,637)	(65,407)	278,953	4,880,898

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk (continued)

At 31 December 2010 - restated

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	9,408,777	331,038	-	-	-	132,656	9,872,471
Due from banks and financial institutions	1,057,498	720,804	215,173	197,213	85,627	80,216	2,356,531
Islamic financing and investing assets, net	51,743,422	4,393,839	17	-	17,176	1,016,613	57,171,067
Investment in Islamic sukuk	5,606,484	2,338,999	-	-	-	254,993	8,200,476
Other investments	273,700	1,075,729	181,453	8,300	159,008	74,756	1,772,946
Receivables and other assets	1,257,541	438,359	34,566	155	35,295	255,667	2,021,583
Total	69,347,422	9,298,768	431,209	205,668	297,106	1,814,901	81,395,074
Financial Liabilities:							
Customers' deposits	58,677,298	3,058,930	10,164	33,125	308,971	1,358,582	63,447,070
Due to banks and other financial institutions	3,388,460	802,553	23	171,776	5,870	40,745	4,409,427
Sukuk financing instruments	2,168,941	2,007,074	-	-	-	-	4,176,015
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,043,159	1,105,814	279,933	1,000	28,789	221,228	3,679,923
Total	70,030,401	6,974,371	290,120	205,901	343,630	1,620,555	79,464,978
Net on balance sheet	(682,979)	2,324,397	141,089	(233)	(46,524)	194,346	1,930,096
Unilateral promise to buy/sell currencies	4,285,814	(4,258,683)	(44,184)	440	17,771	(1,158)	-
Cumulative currency position – long/(short)	3,602,835	(1,934,286)	96,905	207	(28,753)	193,188	1,930,096

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.4 Market risk (continued)

58.4.3 Foreign exchange risk (continued)

Sensitivity analysis - impact of fluctuation of various currencies on net income and equity

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant, including the effect of hedging instruments, on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

Currency	Increase in currency rate in %	Effect on profit before tax 2011 AED'000	Effect on profit before tax 2010 AED'000 (Restated)
USD	+2	21,354	38,686
GBP	+2	233	(4)
EURO	+2	1,308	575
Currency	Decrease in currency rate in %	Effect on profit before tax 2011 AED'000	Effect on profit before tax 2010 AED '000 (Restated)
USD	-2	(21,354)	(38,686)
GBP	-2	(233)	4
EURO	-2	(1,308)	(575)

58.4.4 Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.4 Market risk (continued)

58.4.4 Foreign investment (continued)

Currency	Increase in currency rate in %	Effect on profit before tax 2011 AED'000	Effect on equity 2011 AED'000	Effect on profit before tax 2010 AED'000 (Restated)	Effect on equity 2010 AED'000 (Restated)
Pak Rupees	+5	1,346	15,683	-	13,629
Egypt Sterling	+5	705	10,803	1,878	9,454

Currency	Decrease in currency rate in %	Effect on profit before tax 2011 AED'000	Effect on Equity 2011 AED'000	Effect on profit before tax 2010 AED'000 (Restated)	Effect on Equity 2010 AED'000 (Restated)
Pak Rupees	-5	(151)	(10,476)	(1)	(12,335)
Egypt Sterling	-5	(638)	(7,191)	606	(8,582)

58.4.5 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through OCI at 31 December 2011 and as available-for-sale at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	% Change in Market indices	Effect on consolidate d 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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****58 Risk management (continued)****58.5 Operational risk**

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Bank has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Bank that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of KRIs, risk analysis and risk management reporting.

The Bank is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the bank. The system houses three years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA and scenario based fraud risk self assessment modules.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

58.6 Capital management**58.6.1 Regulatory capital**

The Bank's lead regulator the Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations within the Bank are directly supervised by their respective local regulators.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.6 Capital management (continued)

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of consolidated financial position are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly / quarterly basis.

The U.A.E. Central Bank vide its circular No. 27/2009 dated 17 November 2009 informed all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Further, from June 2010, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at 12%.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

58 Risk management (continued)

58.6 Capital management (continued)

58.6.1 Regulatory capital (continued)

The ratios calculated in accordance with Basel II are as follows:

	Basel II	
	2011	2010
	AED'000	AED'000
		(Restated)
<i>Tier 1 Capital</i>		
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
<i>Tier 2 Capital</i>		
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
<i>Risk weighted assets</i>		
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
<i>Capital Ratios</i>		
Total regulatory capital expressed as a percentage of total risk weighted assets	18.2%	17.8%
Tier 1 capital to total risk weighted assets after deductions for associates	13.6%	12.7%

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

59 Prior year adjustment

The consolidated financial statements as at and for the year ended 31 December 2010 have been restated as a result of an adjustment in share of loss of an associate for the year ended 2010 in Deyaar P.J.S.C. The associate accounted for an impairment charge for goodwill in its financial statements for the year ended 31 December 2011, that is reflected as prior year adjustment, which resulted in a restatement for the year ended 31 December 2010. As a result, the Bank has also restated its share of loss from associates in prior year as follows:

	As previously reported AED'000	Restatement AED'000	As restated AED'000
<u>Consolidated financial position</u>			
Investment in associates as at 31 December 2010	3,430,274	(253,370)	3,176,904
<u>Consolidated income statement</u>			
Share of loss from associates for the year ended 31 December 2010	(846,521)	(253,370)	(1,099,891)
<u>Consolidated statement of changes in equity</u>			
Retained earnings as at 31 December 2010	748,428	(253,370)	495,058

At 31 December 2010, basic and diluted earnings per share attributable to the equity holders of the parent decreased from AED 0.21 per share to AED 0.15 per share.

The restatement does not have an impact on the opening reserves of 2010 or on 2009 consolidated financial statements. The consolidated financial position at 1 January 2010 is, therefore, not included in these consolidated financial statements.

60 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 1 February 2012.