بنك دبي الإسلامي

Dubai Islamic Bank

The world's first Islamic bank

2009 ANNUAL REPORT

DUBAI ISLAMIC BANK P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2009

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Board of Directors' Report for the Financial Year 2009

Dear Shareholders,

Assalam Alaikum wa Rehmatullah wa Barakatahu

With the effects of the global economic crisis still resonating, 2009 was undoubtedly a challenging year for almost every industry across the world. Triggered by credit crisis and liquidity shortfall in the banking system due to the fall of the real estate sector, it resulted in the global collapse of large financial institutions, and downturns in stock markets around the world.

In the UAE, the effects of the crisis on the real estate sector contributed significantly to the economic slowdown. However, the measures adopted by the U.A.E Government to confront the global financial crisis have contributed towards the national economy's ability to retain its strength. Government initiatives such as guaranteeing bank deposits for three years, injecting liquidity into the banking system and promoting the role of credit bureaus in risk assessment, have all helped the UAE back onto the road for recovery, and as a result, the year 2010 carries with it a positive economical outlook.

Dubai Islamic Bank Performance

Despite such circumstances, Dubai Islamic Bank ("DIB") has demonstrated its resilience in the face of challenging conditions backed by our strong business model and commitment of our employees.

DIB has taken the bleak economic outlook in its stride and has continued to deliver a sustainable performance in 2009. The state of the UAE economy has influenced the DIB's conservative approach in 2009 as far as the balance sheet growth is concerned, keeping the interests of the shareholders and customers in mind.

For the full year 2009, DIB reported a net profit of AED1.2 billion. DIB's topline revenue remained stable at AED 5.1 billion in 2009 versus 5.2 billion in 2008, showing robust core business performance and significant resilience to the challenging economic environment. DIB's total assets as of December 31, 2009, stood at AED 84.3 billion, slightly lower than AED 84.6 billion at the end of the same period in 2008.

In the 12 months ending December 31, 2009, customer deposits stood at AED 64.2 billion, compared to AED 62.6 billion at the end of 2008. As of December 31, 2009, DIB maintained a very strong financing-to-deposit ratio of 78 per cent and a Capital Adequacy Ratio (CAR) of 17.9 per cent, providing a clear indication of DIB's healthy liquidity position despite challenging market conditions.

Increased provisioning requirements had an obvious impact on profitability during the year. However, this was a deliberate strategy to provide greater cushion during these challenging times and DIB will continue to follow the same strategy during 2010 in order to protect the interests of its customers as well as the shareholders.

DIB has set the stage for harnessing the next wave of growth in the UAE economy by focusing on the expansion of its domestic retail banking business. DIB opened 11 new branches and express centres in the UAE in 2009, contributing to its annual balance sheet growth.

In a clear sign of the success of that strategy, DIB's customer base increased by 15 per cent last year, reaching approximately 900,000 customers as of December 31, 2009. DIB continues to focus on the opening of both traditional bricks-and-mortar branches while also enhancing its network through Al Islami Express Banking Centres as well as state-of-the-art technological channels.

DIB continues to be recognised by its international peers for the excellence of its operations and innovative nature of its Sharia-compliant products and services. During the year, DIB was named "Best Islamic Bank in the UAE" for the fifth consecutive year by Islamic Finance News Award. DIB was also presented with the award for "Corporate Social Responsibility" in the Middle East by EMEA Finance magazine.

Going forward, for 2010, DIB will continue to focus on consolidating its position and maintain its significant presence in Sharia-compliant transactions. The emphasis on providing quality, value-for-money products and services that meet the needs of our institutional, corporate, high net worth and retail clients will also remain a key objective for DIB. Despite the negative economic scenario, DIB continues to remain profitable and robust – a clear indicator of its dominant market position and strong brand in the financial sector.

FATWA AND SHARIA SUPERVISORY BOARD REPORT

Submitted to The General Assembly Concerning Dubai Islamic Bank's Performance 2009

1. Fatwas and Decisions

The Fatwa & Sharia Supervisory Board ("the Board") attended questions and queries received from the Bank's various departments and issued a set of decisions and appropriate fatwas.

In view of the current global financial crisis and its impact on Islamic banks, the Board has noted that there are various issues that require in-depth research and require additional guidance on account of public needs and the Board applied fatwas of necessity cases, such as clients' inability to honour their obligations timely basis, and to provide alternative products to allow them to honour their obligations. As a result, with the help of Allah and the efforts of the Board and the Bank's management, the Bank has been able to avoid the effects, and even reduce its impact of financial crises. Therefore, fatwas have been issued to address such issues.

2. Structuring of Financing and Preparation of its Documentation

The Board examined and reviewed all the transactions presented for preparation, review and approval of transaction structures, their contracts and related documentation.

3. Investment and Funds Portfolios

The Board reviewed structures of the investment funds and investment portfolios in addition to their management, operations and performance, the circulation and use of their funds. The Board ensure that the investment funds and investments portfolio do not breach any Sharia principles and Board Fatwas.

4. Issuance of Sukuk

The Board reviewed the investment Sukuk offered by the bank>s management, the structuring of these Sukuk, underlying documentation and prospectus and it was ensured that they comply with Sharia and the Board's fatwas.

5. Syndication Financing

The Board reviewed and approved all syndicate financing transactions' structures, contracts and documentation, and ensured that the transactions conform to Shaira and Board Fatwas.

6. Training

The Bank's management adopted Training plan for Shariaa foundation courses developed by the Sharia Board, which led to significant reduction in instances of Sharia violations.

7. Product Development

7.1 The Board, with cooperation of Bank's management, developed the existing products along with innovating new products in line with the developments and progress in Islamic finance industry. This is being done in view of global financial crises and its impact with the aim to meet customers growing needs and expectations.

7.2 Additionally, the Board carefully examined all the problems faced by the Bank as a result of the global financial crisis and its implications on both the Bank and its clients collectively. The Board developed new products in order to address these problems based on principle of necessity and compliance with sharia.

8. Sharia Supervision and Auditing

8.1 The Board reviewed the Sharia Supervision and auditing reports for the Bank's activities and operations during the year. The Bank's management expressed a sincere commitment to comply with the Board's comments and directives.

8.2 The Board set aside the profits from transactions which are not in compliance with Sharia principles where the reasonable justification was not provided by the concerned party in breach.

FATWA AND SHARIA SUPERVISORY BOARD REPORT (continued)

9. Banking Services Fee

The Board reviewed Sharia auditing report with respect to the bank services during the year and fee charged for those services. The Board advised the banks' departments that the fee must be in return for services and limited to equivalent amount of expense incurred by the bank, without increasing the customer outstanding amount or rentalsdebt against deferment of the same.

10. Review of Books of Accounts and Records

The Board reviewed the bank's books of accounts, records and documents and received the data and information from the management for the purposes of sharia review and audit.

11. Review of the Financial Statements

11.1 The Bank's management is responsible for preparation of the financial statements of the Bank. The Board reviewed the financial statements of the Bank, the accounting policies adopted in preparation of these financial statements and basis of profit distribution between shareholders and depositors firstly followed by distribution among the depositors and provided recommendations and opinion. The Board believes that the financial statements presents fairly the bank>s assets and income in view of the information provided by the Bank's management on the observation made by the Board. The accuracy of the financial statements and related information is the responsibility of the Bank's management.

It is worth noting that the Bank presents the investing assets in leases, sold and assigned to the sukukholders, consideration of which have already been received by the Bank from sukuk issuance proceeds. Those lease assets have been included in the assets of the bank in ijarah financing and, the sukuk financing instruments in the liability side. The above are not shown off balance sheet. According to the management of the bank, the presentation is in accordance with the requirements of International Financial Reporting Standards applicable to all banks and requirements of Central Bank of the UAE which is inconsistent with Sharia Standards Board resolution which provides that sukuk assets sold to the sukuk holders, should be shown as an off balance sheet item, and the sukuk issuance proceeds should be treated as consideration of value rather than a debt incurred by the Bank.

The inconsistency pertains only to the disclosure requirements; however, transaction was carried out in compliance with Sharia.

11.2 Pursuant to the memorandum of association of the Bank, the Board reviewed the zakat account which is to be withdrawn by the Banks from the shareholders' funds in conformity with the provisions of Islamic sharia. In respect of zakat on capital and the profits for the year, the responsibility will remain with the shareholders and the Board calculated the rate of zakat due by on share to notify the shareholders thereof.

12. The Board's View

The Board states that the responsibility of implementing Sharia and Board's fatwas in all activities of the Bank, is primarily rests with the Bank's management. Based on the Board review of Banks' activities,transactions, data and information provided as well as management responses to ur its queries, the Board is of the view that the transaction and operations were conducted in accordance with the provisions of Islamic Sharia and the Board's Fatwas.

Members of FATWA AND SHARIA SUPERVISORY BOARD

Dr. Hussein Hamid Hassan

Dr. Ajil Jassem Alnashmi | Dr. Ali Mohiuddin Al Qurra Daghi

Dr. Ali Mohiuddin Al Qurra Daghi | Dr. Mohammed Abdul Hakim Zoeir

AUDITOR'S REPORT

To the Shareholders of
Dubai Islamic Bank P.J.S.C.
Dubai, U.A.E.

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 balance sheet as at 31 December 2009, and the consolidated income statement, consolidated statement of other 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 notes as set out in pages 3 to 91.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of 31 December 2009, and of 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, and the information included in the Board of Directors' report is in agreement with the books of account. 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 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.

Saba Y. Sindaha
Registration Number 410
11 February 2010

Consolidated balance sheet
as at 31 December 2009

	Notes	2009 AED'000	2008 AED'000 (Restated)	2007 AED'000 (Restated)
ASSETS				
Cash and balances with Central Banks	6	**11,611,570**	6,328,666	4,905,657
Balances and deposits with banks and other financial institutions	7	**1,352,299**	1,840,978	1,195,720
International murabahat with financial institutions, short term	8	**1,204,959**	1,640,601	16,279,701
Islamic financing and investing assets, net	9	**49,924,941**	52,659,011	40,534,848
Investments in Islamic sukuk	10	**9,290,797**	11,226,276	8,511,759
Investments in associates	11	**4,295,168**	4,181,548	3,741,596
Other investments	12	**1,925,950**	2,107,936	4,082,682
Properties under construction	13	**388,648**	257,830	-
Properties held for sale	14	**157,269**	168,251	131,831
Investment properties	15	**1,996,288**	2,005,039	2,034,898
Receivables and other assets	16	**1,464,071**	1,671,728	2,273,642
Property, plant and equipment	17	**657,795**	668,753	630,667
Goodwill	18	**34,516**	-	36,910
Total assets		**84,304,271**	84,756,617	84,359,911
LIABILITIES				
Customers' deposits	24	**64,195,503**	66,328,677	65,175,594
Due to banks and other financial institutions	25	**1,449,051**	3,331,101	2,241,322
Sukuk financing instruments	26	**2,415,034**	2,754,750	2,754,750
Medium term wakala finance	27	**3,752,543**	-	-
Other liabilities	28	**3,370,804**	3,449,532	3,393,586
Accrued zakat	30	**140,536**	143,166	129,542
Total liabilities		**75,323,471**	76,007,226	73,694,794
EQUITY				
Share capital	31	**3,617,505**	3,445,400	2,996,000
Treasury shares	32	**(70,901)**	(3,307)	-
Statutory reserve	33	**2,731,879**	2,731,879	2,756,737
Donated land reserve	33	**276,139**	276,139	276,139
General reserve	33	**2,350,000**	2,250,000	1,650,000
Exchange translation reserve	33	**(77,841)**	(59,680)	27,340
Cumulative changes in fair value	34	**(723,713)**	(888,714)	1,006,637
Hedging reserve	36	**50,600**	111,411	-
Retained earnings		**822,222**	886,143	1,701,454
Equity attributable to equity holders of the Parent		**8,975,890**	8,749,271	10,414,307
Non-controlling interest	38	**4,910**	120	250,810
Total equity		**8,980,800**	8,749,391	10,665,117
Total liabilities and equity		**84,304,271**	84,756,617	84,359,911
Contingent liabilities and commitments	39	**25,638,030**	44,642,611	27,974,861

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors dated 11 February 2010.

H. E. Mohammad A. Al Shaibani	Sheikh Khalid Bin Zayed Al Nehyan	Abdulla Ali Al Hamli
Chairman	*Deputy Chairman*	*Chief Executive Officer*

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

Consolidated income statement
for the year ended 31 December 2009

	Notes	2009 AED'000	2008 AED'000 (Restated)
INCOME			
Income from Islamic financing and investing assets	41	**3,322,857**	3,204,840
Income from Islamic sukuk		**703,539**	551,101
Income from international murabahat, short term	42	**51,478**	266,208
Share of profits of associates	11	**17,345**	126,538
Loss from other investments	43	**(18,935)**	(61,295)
Commissions, fees and foreign exchange income	44	**752,169**	872,127
Income from investment properties	45	**78,300**	180,401
Income from sale of properties held for sale	46	**997**	31,718
Gain on buy back of sukuk financing instrument	26	**38,712**	-
Other income	47	**186,453**	98,723
Total Income		**5,132,915**	5,270,361
EXPENSES			
Personnel expenses	48	**(813,202)**	(882,497)
General and administrative expenses	49	**(524,760)**	(517,045)
Net impairment loss on financial assets	50	**(817,909)**	(520,830)
Depreciation of investment properties	15	**(18,722)**	(20,125)
Total Operating Expenses		**(2,174,593)**	(1,940,497)
Profit before depositors' share and tax		**2,958,322**	3,329,864
Depositors' share of profits	51	**(1,739,197)**	(1,777,672)
Profit for the year before tax		**1,219,125**	1,552,192
Income tax (expense)/deferred	29	**(6,844)**	2,135
Net profit for the year		**1,212,281**	1,554,327
Attributable to:			
Equity holders of the parent		**1,207,491**	1,554,327
Non-controlling interest		**4,790**	-
Net profit for the year		**1,212,281**	1,554,327
Basic and diluted earning per share attributable to the equity holders of the parent (AED)	52	**AED 0.33**	AED 0.43

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

Consolidated statement of comprehensive income
for the year ended 31 December 2009

	2009 AED'000	2008 AED'000 (Restated)
Net profit for the year	**1,212,281**	1,554,327
Other comprehensive income/(loss) item		
Fair value gain/(loss) on available for sale investments	**165,310**	(1,836,761)
Realised loss on available for sale of investments	**(309)**	(58,590)
Currency translation differences of foreign operations	**(18,161)**	(87,020)
Fair value (loss)/gain on cash flow hedge	**(15,592)**	111,411
Reclassification of cash flow hedging reserve to consolidated income statement	**(45,219)**	-
Directors' remuneration	**(4,800)**	(5,350)
Other comprehensive income/(loss) for the year	**81,229**	(1,876,310)
Total comprehensive income/(loss) for the year	**1,293,510**	(321,983)
Attributable to:		
Equity holders of the parent	**1,288,720**	(321,983)
Non-controlling interest	**4,790**	-
	1,293,510	(321,983)

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

Consolidated statement of changes in equity
for the year ended 31 December 2009

	Share capital AED'000	Treasury shares AED'000	Total reserves AED'000	Cumulative changes infair value AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non - controlling interest AED'000	Total equity AED'000
Balance at 1 January 2009 - restated	3,445,400	(3,307)	5,198,338	(888,714)	111,411	886,143	8,749,271	120	8,749,391
Net profit for the year	-	-	-	-	-	1,207,491	1,207,491	4,790	1,212,281
Other comprehensive income items:									
Fair value gains on available for sale investments	-	-	-	165,310	-	-	165,310	-	165,310
Realised loss on available for sale investments	-	-	-	(309)	-	-	(309)	-	(309)
Currency translation differences of foreign operations	-	-	(18,161)	-	-	-	(18,161)	-	(18,161)
Fair value loss on cash flow hedge	-	-	-	-	(15,592)	-	(15,592)	-	(15,592)
Reclassification of cash flow hedging reserve to income statement	-	-	-	-	(45,219)	-	(45,219)	-	(45,219)
Directors' remuneration	-	-	-	-	-	(4,800)	(4,800)	-	(4,800)
Total comprehensive income for the year	-	-	(18,161)	165,001	(60,811)	1,202,691	1,288,720	4,790	1,293,510
Issuance of bonus shares	172,105	-	-	-	-	(172,105)	-	-	-
Dividends paid	-	-	-	-	-	(860,523)	(860,523)	-	(860,523)
Share based payments vested	-	-	-	-	-	5,444	5,444	-	5,444
Transfer to general reserve	-	-	100,000	-	-	(100,000)	-	-	-
Shares acquired	-	(67,594)	-	-	-	-	(67,594)	-	(67,594)
Accrued zakat (note 30)	-	-	-	-	-	(139,428)	(139,428)	-	(139,428)
Balance at 31 December 2009	**3,617,505**	**(70,901)**	**5,280,177**	**(723,713)**	**50,600**	**822,222**	**8,975,890**	**4,910**	**8,980,800**

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

Consolidated statement of changes in equity
for the year ended 31 December 2009 (continued)

	Share capital AED'000	Treasury shares AED'000	Total reserves AED'000	Cumulative changes infair value AED'000	Hedging reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non - controlling interest AED'000	Total equity AED'000
Balance at 1 January 2008 (As reported)	2,996,000	-	4,710,216	1,006,637	-	1,701,454	10,414,307	250,810	10,665,117
Net profit for the year – as stated	-	-	-	-	-	1,730,290	1,730,290	-	1,730,290
Restatements:									
Adjustment in share of profit of associates	-	-	-	-	-	(274,496)	(274,496)	-	(274,496)
Effect on depositors share of profit of above	-	-	-	-	-	98,533	98,533	-	98,533
	-	-	-	-	-	1,554,327	1,554,327	-	1,554,327
Other comprehensive loss items:									
Fair value loss on available for sale investments	-	-	-	(1,836,761)	-	-	(1,836,761)	-	(1,836,761)
Realised loss on disposal of available for sale of investment	-	-	-	(58,590)	-	-	(58,590)	-	(58,590)
Currency translation differences of foreign operations	-	-	(87,020)	-	-	-	(87,020)	-	(87,020)
Fair value gain on cash flow hedge					111,411	-	111,411	-	111,411
Directors' remuneration	-	-	-	-	-	(5,350)	(5,350)	-	(5,350)
Total comprehensive loss for the year	-	-	(87,020)	(1,895,351)	111,411	1,548,977	(321,983)	-	(321,983)
Issuance of bonus shares	449,400	-	-	-	-	(449,400)	-	-	-
Dividends paid	-	-	-	-	-	(1,198,400)	(1,198,400)	-	(1,198,400)
Share based payment granted	-	(3,307)	-	-	-	-	(3,307)	-	(3,307)
Share based payment vested	-	-	-	-	-	18,069	18,069	-	18,069
Transfer to general reserves	-	-	600,000	-	-	(600,000)	-	-	-
Accrued zakat (note 30)	-	-	-	-	-	(134,557)	(134,557)	-	(134,557)
Movement as a result of subsidiary disposed	-	-	(24,858)	-	-	-	(24,858)	(250,690)	(275,548)
Balance at 31 December 2008	3,445,400	(3,307)	5,198,338	(888,714)	111,411	886,143	8,749,271	120	8,749,391

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

Consolidated statement of cash flows
for the year ended 31 December 2009

	2009 AED'000	2008 AED'000 (Restated)
OPERATING ACTIVITIES		
Net profit for the year before taxation and non-controlling interest	**1,219,125**	1,552,192
Adjustments for:		
Revaluation of investments at fair value through profit or loss	**53,562**	277,068
Dividend income	**(39,646)**	(116,184)
Gain on sale of investment properties	**(2,691)**	(89,744)
Cost of shared based payments	**5,444**	18,069
Net impairment loss on financial assets	**817,909**	518,161
Share of profits of associates	**(17,345)**	(126,538)
Gain on derivative assets	**(102,164)**	-
Depreciation of investment properties	**18,722**	20,125
Depreciation of property, plant and equipment	**116,008**	103,258
Loss on disposal of associates	**4,703**	-
Loss/(gain) on sale of investments at fair value through profit or loss	**6,841**	(9,534)
Gain on buy back of sukuk financial instruments	**(40,696)**	-
Amortisation of hedging reserve	**(45,219)**	-
Gain on disposal of property held for sale	**(997)**	(31,718)
Write off of property, plant and equipment	**27,950**	-
Gain on shares acquired	**(67,594)**	-
Operating profit before changes in operating assets and liabilities	**1,953,912**	2,115,155
Decrease/(increase) in Islamic financing and investing assets	**2,017,380**	(14,459,360)
Decrease in receivables and other assets	**311,513**	177,206
Increase in customers' deposits	**1,619,369**	3,683,341
(Decrease)/increase in due to banks and other financial institutions	**(1,882,050)**	1,163,039
(Decrease)/increase in other liabilities	**(83,528)**	478,790
Decrease in accrued zakat	**(141,825)**	(120,933)
Cash from/(used in) operations	**3,794,771**	(6,962,762)
Tax paid	**(4,436)**	-
Net cash from/(used in) operating activities	**3,790,335**	(6,962,762)

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

Consolidated statement of cash flows
for the year ended 31 December 2009 (continued)

	2009 AED'000	2008 AED'000 (Restated)
INVESTING ACTIVITIES		
Proceeds/(acquisition) in Investments in Islamic sukuk	**1,894,378**	(2,714,517)
Proceeds from sale of investments at fair value through profit or loss	**133,163**	31,987
Proceeds from sale of available for sale investments	**117,604**	-
Purchase of investments at fair value through profit or loss	**(280)**	-
Purchase of available for sale investments	**-**	(801,730)
Proceeds from disposal of properties under construction	**-**	(4,287)
Proceeds from disposal of investment properties	**5,789**	396,290
Addition to properties under construction	**(130,818)**	(178,772)
Additions to properties held for sale	**(701)**	-
Purchase of investment properties	**(15,281)**	(367,958)
Net cash related on disposal of subsidiaries	**(38,567)**	(505,388)
Dividend income	**39,646**	116,184
Investments in associates	**(107,183)**	(111,902)
Purchase of property, plant and equipment	**(147,292)**	(413,457)
Proceeds from sale of property, plant and equipment	**12,160**	20,814
Proceeds from properties held for sale	**13,461**	93,879
International murabahats with financial institutions over 3 months	**(88,836)**	-
Exchange differences arising on translation of foreign operations	**(48,288)**	40,571
Net cash from/(used in) investing activities	**1,638,955**	(4,398,286)
FINANCING ACTIVITIES		
Dividends paid	**(860,523)**	(1,198,400)
Buy back of sukuk financing instrument	**(299,020)**	-
Treasury shares	**-**	3,307
Non-controlling interests	**-**	(14,692)
Net cash used in financing activities	**(1,159,543)**	(1,209,785)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**4,269,747**	(12,570,833)
Cash and cash equivalents at the beginning of the year	**9,810,245**	22,381,078
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (note 53)	**14,079,992**	9,810,245

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

Notes to the consolidated financial statements
for the year ended 31 December 2009

1 General

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

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

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2009	Percentage of equity 2008
1.	Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
3.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
4.	DIB Capital Limited	Investments & financial services	U.A.E.	95.5%	95.5%
5.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	96.0%	96.0%
6.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	96.0%	96.0%
7.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
8.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
9.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
10.	Zone One Real Estate Management Co.	Investments in real estate	Cayman Islands	100.0%	100.0%
11.	Zone Two Real Estate Management Co.	Investments in real estate	Cayman Islands	100.0%	100.0%
12.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
13.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
14.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
15.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
16.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
17.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	100.0%	100.0%
18.	Millennium Capital Holding PSC	Financing & investing	U.A.E.	95.5%	95.5%
19.	Sequia Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
20.	Bulwark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
21.	Optimum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
22.	Rubicon Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
23.	Osiris Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
24.	Lotus Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
25.	Premiere Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
26.	Landmark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
27.	Blackstone Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
28.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
29.	Momentum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
30.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
31.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial & legal advisory	U.A.E.	60.0%	60.0%

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

1 General (continued)

Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2009	2008
32. Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	U.A.E.	75.5%	75.5%
33. Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100%	100%
34. HoldInvest Real Estate Sarl	Investments	Luxembourg	100%	100%
35. France Invest Real Estate SAS	Real estate development	France	100%	100%
36. SARL Barbanniers	Investments	France	100%	100%
37. SCI le Sevine	Investment in real estate	France	100%	100%
38. Findi Real Estate SAS	Trust activities	France	Controlling interest	Controlling interest
39. PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Trading & management	Austria	100%	100%
40. Al Islami German Holding Co. GMBH	Investments	Germany	100%	100%
41. Rhein Logistics GMBH	Administration	Germany	100%	100%
42. Jef Holdings BV	Trust activities	Netherlands	Controlling interest	Controlling interest
43. Levant One Investment Limited	Investments	U.A.E.	100%	-
44. Petra Limited	Investments	Cayman Islands	100%	-

In addition to the registered ownership described above, the remaining equity in the entities 1, 3, 4, 5, 6, 8, 9 and 18 to 30 and 32 is also held by the Bank beneficially through nominee arrangements.

Associates	Principal activity	Country of incorporation	Percentageof equity 2009	2008
45. Bank of Khartoum	Banking	Sudan	28.4 %	28.4 %
46. Millennium Finance Corporation Limited	Financial advisory	U.A.E.	-	32.5%
47. Millennium Private Equity Ltd.	Investments	U.A.E.	-	32.5%
48. Etisalat International Pakistan Ltd.	Investments	U.A.E.	10.0%	10.0%
49. Bosnia International Bank	Banking	Bosnia	27.3%	27.3%
50. BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	13.6%	13.6%
51. Liquidity Management Center (B.S.C.)	Brokers	Bahrain	25.0%	25.0%
52. Emirates National Securitisation Corporation	Securitisation	Cayman Islands	-	35.0%
53. Deyaar Development P.J.S.C.	Real estate development	U.A.E.	43.0%	43.0%
54. Omega Engineering L.L.C.	Mechanical, electrical & plumbing	U.A.E	23.7%	23.7%
55. Dubai Insaat Gayrimenkul Sanaki Ve Ticaret Limited Sirketi	Property Development	Turkey	-	43.0%
56. DIB Tower SAL	Investment in real estate	Lebanon	-	43.0%
57. Beirut Bay SAL	Property Development	Lebanon	43.0%	43.0%
58. Deyaar (UK) Ltd.	Representative Office of Deyaar	UK	43.0%	43.0%
59. Deyaar Cayman Ltd.	Investment holding Company	Cayman Islands	43.0%	43.0%
60. Faisal Islamic Bank of Kibris	Banking	TRNC	31.0%	31.0%
61. Saba Islamic Bank	Banking	Yemen	18.5%	18.5%
62. Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	16.6%	16.6%
63. Jordan Dubai Islamic Bank	Banking	Jordan	20.8%	-
64. MESC Investment Company	Investments	Jordan	40.0%	-
65. Al Bustan Center Company L.L.C.	Rental of apartments & shops	U.A.E.	50.0%	50.0%
66. Waqf Trust Services L.L.C. (under liquidation)	Trust and fiduciary services	U.A.E.	50.0%	50.0%
67. Al Rimal Development	Property development	U.A.E.	50.0%	50.0%
68. Gulf Tankers L.L.C.	Cargo and transport	U.A.E.	50.0%	50.0%
69. Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50.0%	-

1 General (continued)

The entities listed as 32 and 68 did not conduct any operations during the current or previous periods.

Although the Bank's interest in the equity of the entities listed as 48, 50, 61 and 62 is less than 20%, the Bank exercises significant influence over these entities. These investments have, accordingly, been accounted for as 'investments in associates'.

The consolidated financial statements as of and for the year from 1 January 2008 to 31 December 2008 have been restated (refer to note 61).

The registered head office of the Bank is at P.O. Box 1080, Dubai, United Arab Emirates (U.A.E.).

The Bank is registered as a P.J.S.C. in accordance with U.A.E. Federal Law No. (8) of 1984 (as amended).

2 Adoption of new and revised standards

2.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these consolidated financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the consolidated financial statements are set out in section 2.2.

- IAS 1 (as revised in 2007) *Presentation of Financial Statements* — IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

- *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)* — The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk (see note 58).

- IFRIC 15 *Agreements for the Construction of Real Estate* — The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction of real estate should be recognised.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

2 Adoption of new and revised standards (continued)

2.2 Standards and Interpretations adopted with no effect on the consolidated financial statements

The following new and revised Standards and Interpretations have also been adopted in these consolidated financial statements. Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

- IFRS 8 *Operating Segments* — IFRS 8 is a disclosure Standard that requires re-designation of the Bank's reportable segments based on the segments used by the Chief Operating Decision Maker to allocate resources and assess performance. There was no material impact of this Standard on the previous disclosures and reported results or the financial position of the Bank since the business segments reported earlier as per the requirements of IAS 14 *Segment Reporting* are also used by management to allocate resources to the segments and to assess its performance (note 56).

- Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* — The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.

- IAS 23 (as revised in 2007) *Borrowing Costs* — The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these consolidated financial statements because it has always been the Bank's accounting policy to capitalise borrowing costs incurred on qualifying assets.

- Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* — The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

- IFRIC 13 *Customer Loyalty Programmes* — The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* — The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

- IFRIC 18 *Transfers of Assets from Customers* (adopted in advance of effective date of transfers of assets from customers received on or after 1 July 2009) — The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.

- Improvements to IFRSs (2008) — Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 Annual Improvements to IFRSs majority of which are effective for annual periods beginning on or after 1 January 2009.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

2 Adoption of new and revised standards (continued)

2.3 Standards and Interpretations in issue not yet effective

At the date of authorisation of these consolidated financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

New Standards and amendments to Standards:

	Effective for annual periods beginning on or after
• IFRS 1 (revised) *First time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements* – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009
• IFRS 3 (revised) *Business Combinations* – Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) *Consolidated and Separate Financial Statements*, IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	1 July 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement* – Amendments relating to Eligible Hedged Items(such as hedging Inflation risk and Hedging with options)	1 July 2009
• IFRS 1 (revised) *First time Adoption of IFRS* – Amendment on additional exemptions for First-time Adopters	1 January 2010
• IFRS 2 (revised) *Share-based payment* – Amendment relating to Group cash-settled Share-based payments	1 January 2010
• IAS 32 (revised) *Financial Instruments: Presentation* – Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 *Related Party Disclosures* – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
• IFRS 9 Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
• Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 *Annual Improvements to IFRSs*.	Majority effective for annual periods beginning on or after 1 January 2010

New Interpretations and amendments to Interpretations:

	Effective for annual periods beginning on or after
• IFRS 17: *Distributions of Non-cash Assets to Owners*	1 July 2009
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• Amendment to IFRIC 14: *IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	1 January 2011
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	1 July 2009
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives* relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category	1 July 2009

The Directors anticipate that these amendments will be adopted in the Bank's consolidated financial statements for the initial period when they become effective. Management have not yet had an opportunity to consider the potential impact o the adoption of these amendments.

3 Definitions

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

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.

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.

Ijarah

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

Musharaka

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

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.

Wakala

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

Sukuk

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

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

4 Significant accounting policies

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the Laws of the U.A.E.

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

4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments mainly investment carried at fair value through profit or loss, available for sale investments, unilateral promise to buy/sell currencies and Islamic swaps which are measured at fair value.

4.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Dubai Islamic Bank P.J.S.C. and its subsidiaries (collectively referred to as "the Bank") as set out in Note 1. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

All significant inter-company balances, income and expense items are eliminated on consolidation.

Non-controlling interest in subsidiaries are identified separately from the Bank's equity therein. The interest of non-controlling shareholders is measured as the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount those interests at initial recognition plus the non-controlling interest's 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.

Non-controlling interest represents the portion of profit or loss for the year and portion of net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately under the headings 'Non-controlling interest' in the consolidated financial statements.

4.4 Investments in joint ventures

The Bank's interests in joint ventures, which are defined as those entities which are subject to joint control, are accounted for under the proportionate consolidation method whereby the Bank accounts for its share of the assets, liabilities, income and expenses in the joint ventures on a line by line basis.

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

4 Significant accounting policies (continued)

4.5 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

4.6 Revenue recognition

Income from investing and financing assets

Income from Islamic financing and investing assets are recognised in the consolidated income statement using the effective profit 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.

Murabahat

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

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.

Ijarah

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

Musharaka

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

Mudaraba

Income or losses on Mudaraba financing are recognised on 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.

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

4 Significant accounting policies (continued)

4.6 Revenue recognition (continued)

Sukuk

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

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.

Fee and commission income

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

Rental income

Rental income from investment properties is recognised on a straight line basis over the terms of the relevant lease and is stated net of related expenses.

Dividends

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

4.7 Balances and deposits with banks and other financial institutions

Balances and deposits with banks and other financial institutions are stated at cost less amounts written off and provision for impairment, if any.

4.8 International murabahat with financial institutions, short term

International murabahat with financial institutions, short term are stated at cost less provisions for impairment and deferred profits.

4.9 Islamic financing and investing assets

Islamic financing and investing assets consist of murabahat receivables, mudaraba, musharaka, wakala arrangements, istisna'a and ijarah contracts and they are measured at amortised cost less any amounts written off and allowance for impairment losses. Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing and investing assets are stated at cost less any provisions for impairment and deferred income.

Allowance for impairment is made against 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.

4 Significant accounting policies (continued)

4.10 Islamic financing and investing assets impairment

Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial Islamic financing and investing 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.

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.

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.

Incurred but not yet identified

Individually assessed Islamic financing and investing assets for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or Islamic financing and investing assets rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the consolidated balance sheet date, which the Bank is not able to identify on an individual basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual Islamic financing and investing assets within the group of the customer, those loans are removed from the group of the customer and assessed on an individual basis for impairment.

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.

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 loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

4 Significant accounting policies (continued)

4.11 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.

4.12 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.

4.13 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.

4.14 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 any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

4 Significant accounting policies (continued)

4.15 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

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

4.16 Other investments

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.

Non-trading investments

These are classified as follows:
- Held to maturity
- Available for sale investments

Held to maturity

Investments 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 investments. Held to maturity investments 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.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised on or impaired.

4 Significant accounting policies (continued)

4.16 Other investments (continued)

Held to maturity (continued)

If there is objective evidence that an impairment on held to maturity investments 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.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to profit rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale investments

Investments not classified as either "held for trading" or "held to maturity" are classified as "available for sale" and are stated at fair value.

Available for sale investments are initially recognised at fair value plus any directly attributable transaction cost and are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and tested for impairment, if any.

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 included in the consolidated income statement for the year.

Dividends on available for sale equity instruments are recognised in the consolidated income statement when the Bank's right to receive the dividends is established.

4.17 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.

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.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

4 Significant accounting policies (continued)

4.18 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property, plant and equipment category and depreciated in accordance with the Bank's policies.

4.19 Other financial liabilities

Other financial liabilities, including borrowings, 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.

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

Customers' deposits, due to banks and other 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.

4.21 Employees' end of service benefits

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 2 of 2000.

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

4.22 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.

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. 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 Significant of accounting policies (continued)

4.23 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective countries in which the Bank operates.

Deferred income taxation is provided using the liability method on all temporary differences at the consolidated balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the consolidated balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

4.24 Zakat

Zakat is computed as per the Articles and Memorandum of Association of the Bank and its subsidiaries and is approved by the Fatwa and Sharia'a Supervisory Boards of the respective entities on the following basis:

- Zakat on Shareholders' equity is deducted from their dividends and is computed on their zakat pool (shareholders' equity less paid up capital, donated land reserve, exchange translation reserve, hedging reserve and cumulative changes in fair value) plus employees' end of service benefits.
- Zakat on profit equalsation provision is charged to this provision after it has been calculated.
- Zakat is disbursed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on the paid up capital is not included in the zakat computations and is payable directly by the shareholders themselves.

4.25 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.

4.26 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated balance sheet date is recognised in the consolidated income statement for assets classified as held for trading and in other comprehensive income for assets classified as available for sale.

4.27 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.

4.28 Fiduciary activities

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

4 Significant of accounting policies (continued)

4.29 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and reported net in the consolidated balance sheet only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

4.30 Cash and cash equivalents

Cash and cash equivalents disclosed in the consolidated cash flow statement consists of cash and balances with central banks, due from banks and international Murabahat with original maturities of three months or less.

4.31 Impairment of non financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use.

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.

4.32 Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised on where:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and
- either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same financial institution on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

4 Significant of accounting policies (continued)

4.33 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of Islamic derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and Islamic swap.

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and reorganised pricing models as appropriate.

For the purpose of hedge accounting, the Bank classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a reorganised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a reorganized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective through its life, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

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.

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.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

4 Significant accounting policies (continued)

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

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

4.35 Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated balance sheet date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4.36 Foreign currencies

Transactions in currencies other than AED are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are revalued at the rates prevailing on the consolidated balance sheet date. Profits and losses arising on exchange are included in the consolidated income statement.

The assets and liabilities of the Bank's overseas operations are translated at exchange rates prevailing on the consolidated balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Bank's retained earnings. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

4.37 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.

4.38 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 56 on Business Segment reporting.

4.39 Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the consolidated balance sheet date. Bid prices are used for assets and offer prices are used for liabilities.

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of suitable other methods for arriving at a reliable fair value.

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

5 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 4, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of Islamic financing and investing assets, investment securities and the fair values of derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of Islamic financing and investing assets, investment securities and fair values of derivative financial instruments are summarised as follows:

5.1 Impairment losses on Islamic financing and investing assets

The impairment allowance for Islamic financing and investing assets is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful Islamic financing and investing assets.

5.1.1 Individually assessed Islamic financing and investing assets

Impairment losses for individually assessed Islamic financing and investing assets are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate Islamic financing and investing assets which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual Islamic financing and investing assets which are significant:

- The amount expected to be realised on disposals of collaterals.
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation.
- 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 balance sheet date.

5.2 Transfer of equitable interest in properties

The Bank has entered into a number of contracts with buyers for the sale of land and apartment units. Management has determined that the equitable interest in such assets and therefore, risks and rewards of the ownership, are transferred to the buyer once he is committed to complete the payment for the purchase. This commitment is evidenced by a signed contract for the purchase of the property and payments of sufficient progress payments. Based on this, the Bank recognises revenues and profits as the acts to complete the property are performed.

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

5.3 Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through income statement 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 profit or loss in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

5.4 Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

5.5 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.

5.6 Islamic derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the internal benchmark profit rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

6 Cash and balances with Central Banks

	2009 AED'000	2008 AED'000	2007 AED'000
Cash in hand	**1,491,173**	1,293,409	1,027,859
Balances with central banks:			
- Current accounts	**6,376,863**	686,886	813,684
- Reserve requirements	**3,743,534**	4,348,371	3,064,114
	11,611,570	6,328,666	4,905,657

The reserve requirements are kept with the Central Banks of U.A.E. and Pakistan in the respective local currencies and US Dollar. These reserves are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the respective Central Banks. The level of reserve required changes every month in accordance with the requirements of the respective Central Banks' directives.

Cash and balances with Central Banks by geography is as follows:

	2009 AED'000	2008 AED'000	2007 AED'000
Within the U.A.E.	**11,486,195**	6,212,874	4,523,409
Outside the U.A.E.	**125,375**	115,792	382,248
	11,611,570	6,328,666	4,905,657

7 Balances and deposits with banks and other financial institutions

	2009 AED'000	2008 AED'000	2007 AED'000
Current accounts	**666,321**	322,697	682,865
Investment deposits	**685,978**	1,518,281	512,855
	1,352,299	1,840,978	1,195,720

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

	2009 AED'000	2008 AED'000	2007 AED'000
Within the U.A.E.	**697,168**	1,313,602	941,264
Outside the U.A.E.	**655,131**	527,376	254,456
	1,352,299	1,840,978	1,195,720

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

8 International Murabahat with financial institutions, short term

International murabahat with financial institutions by geography is as follows:

	2009 AED'000	2008 AED'000	2007 AED'000
Within the U.A.E.	**102,872**	1,278,355	7,042,219
Outside the U.A.E.	**1,102,087**	362,246	9,237,482
	1,204,959	1,640,601	16,279,701

9 Islamic financing and investing assets, net

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Financing Assets			
Commodities murabahat	**6,553,773**	8,328,995	8,452,997
International murabahat long term	**1,636,047**	1,779,248	2,405,710
Vehicles murabahat	**6,589,053**	6,735,209	4,979,679
Real estate murabahat	**5,391,693**	6,431,362	6,071,640
Total murabahat	**20,170,566**	23,274,814	21,910,026
Istisna'a	**8,362,108**	8,443,662	7,511,596
Ijara	**11,583,847**	9,946,785	7,147,159
Islamic credit cards	**392,014**	309,800	257,373
	40,508,535	41,975,061	36,826,154
Less: Deferred income	**(4,414,648)**	(4,617,627)	(4,031,793)
Provisions for impairment	**(1,845,257)**	(1,186,864)	(1,046,662)
Contractors and consultants' Istisna'a contracts	**(1,147,768)**	(1,555,810)	(1,786,179)
	33,100,862	34,614,760	29,961,520
Investing Assets			
Musharakat	**10,524,280**	10,047,283	4,544,234
Mudaraba	**5,456,053**	7,208,814	5,920,503
Wakalat	**946,791**	846,491	186,598
	16,927,124	18,102,588	10,651,335
Less: Provision for impairment	**(103,045)**	(58,337)	(78,007)
	16,824,079	18,044,251	10,573,328
Total Islamic financing and investing assets, net	**49,924,941**	52,659,011	40,534,848

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

9 Islamic financing and investing assets, net (continued)

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

	2009			2008			2007 (Restated)		
	U.A.E. AED'000	International AED'000	Total AED'000	U.A.E. AED'000	International AED'000	Total AED'000	U.A.E. AED'000	International AED'000	Total AED'000
Economic sector									
Financial institutions	**4,125,258**	**517,834**	**4,643,092**	4,567,767	409,444	4,977,211	1,981,401	943,373	2,924,774
Real estate	**20,858,321**	**110,263**	**20,968,584**	19,716,956	231,740	19,948,696	15,663,170	1,289,569	16,952,739
Trade	**3,456,548**	**102,377**	**3,558,925**	4,814,638	320,329	5,134,967	3,062,147	871,522	3,933,669
Government	**4,182,292**	**-**	**4,182,292**	4,398,741	45,729	4,444,470	2,723,103	-	2,723,103
Manufacturing and services	**9,096,360**	**1,147,366**	**10,243,726**	9,847,947	1,948,297	11,796,244	5,184,800	3,565,639	8,750,439
Personal financings and others	**7,804,476**	**472,148**	**8,276,624**	7,602,624	-	7,602,624	6,374,793	-	6,374,793
Total	**49,523,255**	**2,349,988**	**51,873,243**	50,948,673	2,955,539	53,904,212	34,989,414	6,670,103	41,659,517
Less: Allowance for impairment			**(1,948,302)**						(1,124,669)
Total			**49,924,941**			52,659,011			40,534,848

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

9 Islamic financing and investing assets, net (continued)

Provisions for impairment

Movements in the provision for impairment are as follows:

	Financing AED'000	Investing AED'000	Total AED'000
2009			
Balance, beginning of the year	**1,186,864**	**58,337**	**1,245,201**
Charge for the year	**784,803**	**72,452**	**857,255**
Release to the consolidated income statement	**(113,519)**	**(27,046)**	**(140,565)**
Write-offs during the year	**(12,861)**	**-**	**(12,861)**
Others	**(30)**	**(698)**	**(728)**
Balance, end of the year	**1,845,257**	**103,045**	**1,948,302**
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	**2,922,752**	**184,253**	**3,107,005**
2008			
Balance, beginning of the year	1,046,662	78,007	1,124,669
Charge for the year	295,498	9,898	305,396
Release to the income statement	(59,830)	(28,207)	(88,037)
Pertaining to subsidiaries disposed off	(89,509)	-	(89,509)
Write-offs during the year	(5,957)	(36)	(5,993)
Others	-	(1,325)	(1,325)
Balance, end of the year	1,186,864	58,337	1,245,201
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	2,179,036	47,842	2,226,878
2007			
Balance, beginning of the year	802,366	78,877	881,243
Charge for the year	325,056	6,798	331,854
Release to the income statement	(55,581)	(7,668)	(63,249)
Write-offs	(25,179)	-	(25,179)
Balance, end of the year	1,046,662	78,007	1,124,669
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,604,424	80,321	1,684,745

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

9 Islamic financing and investing assets, net (continued)

Collateral

The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with investing and financing assets. This collateral includes savings and investment deposits, financial guarantees, equities, real estate and other fixed assets. The estimated value of collaterals, other than retail assets which are mainly asset based financing, is as follows:

	2009 AED'000	2008 AED'000	2007 AED'000
Corporate and financial guarantees	**49,074,130**	39,903,222	18,419,337
Property and Mortgages	**29,937,517**	26,571,190	12,438,573
Deposits	**1,259,473**	1,409,832	901,538
Vehicles and machineries	**163,481**	48,071	39,718

The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2009 amounts to AED 2.75 billion (2008: AED 3.09 billion and 2007: 384.05 million).

During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 6.52 million (2008: AED 4.38 million and 2007: AED 3.19 million), which has been adjusted against the outstanding receivables.

10 Investments in Islamic Sukuk

Investments in Islamic sukuk by geographical area are as follows:

	2009 AED'000	2008 AED'000	2007 AED'000
Held to maturity – at amortised cost			
Within U.A.E.	**7,736,096**	10,610,805	7,813,423
Other G.C.C. Countries	**346,161**	391,001	565,274
Rest of the world	**238,857**	224,470	133,062
	8,321,114	11,226,276	8,511,759
Available for sale			
Within U.A.E.	**969,683**	-	-
	969,683	-	-
Total	**9,290,797**	11,226,276	8,511,759

Held to maturity investments in Islamic sukuk are measured at amortised cost and available for sale investments in Islamic sukuk after initial recognition are re-measured at fair value with changes in fair value recognised in other comprehensive income.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

11 Investments in associates

Investments in associates comprise:

	2009 AED'000	2008 AED'000 (Restated)	2007 AED'000
Share in capital and financing	**4,056,455**	3,954,342	3,573,871
Share of profits	**356,704**	336,632	217,151
Less: provision for impairment	**(117,991)**	(109,426)	(49,426)
	4,295,168	4,181,548	3,741,596

Provision for impairment of investments in associates

	2009 AED'000	2008 AED'000 (Restated)	2007 AED'000
Balance, beginning of the year	**109,426**	49,426	27,500
Charge for the year (note 50)	**8,565**	60,000	21,926
Balance, end of the year	**117,991**	109,426	49,426

The following table illustrates summarised information of the Bank's investments in associates:

	2009 AED'000	2008 AED'000 (Restated)	2007 AED'000
Share of associates' balance sheets:			
Assets	**6,847,034**	6,926,707	5,722,294
Liabilities	**(2,433,875)**	(2,635,733)	(1,931,271)
Net assets	**4,413,159**	4,290,974	3,791,023
Less: Provision for impairment	**(117,991)**	(109,426)	(49,427)
Carrying value of investment in associates	**4,295,168**	4,181,548	3,741,596
Share of associates' revenues and results:			
Revenues	**1,014,371**	1,048,293	419,711
Results	**17,345**	126,538	203,462

Carrying value of investment in associates by geographical area are as follows:

	2009 AED'000	2008 AED'000 (Restated)	2007 AED'000
Within U.A.E.	**3,769,867**	3,809,405	3,606,182
Other G.C.C. Countries	**56,782**	59,431	58,647
Rest of the world	**468,519**	312,712	76,767
	4,295,168	4,181,548	3,741,596

As required under IAS 28, management applies the requirements of IAS 39 at the end of each reporting period to determine whether it is necessary to recognise any additional impairment with respect to the net investment in associates on an individual basis. An investment was identified as being impaired for which the entire carrying amount under IAS 36 was tested and the resulting impairment of AED 8.57 million was charged to the consolidated income statement.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

12 Other investments

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Investments carried at fair value through income statement	**128,561**	322,128	820,849
Available for sale investments	**1,797,389**	1,785,808	3,261,833
	1,925,950	2,107,936	4,082,682

	31 December 2009			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Equity instruments	1,212	108,192	19,157	128,561
Available for sale investments				
Quoted:				
Equity instruments *	603,650	95,909	40,255	739,814
Unquoted:				
Equity instruments	212,863	133,389	192,627	538,879
Investment funds	142,968	-	406,996	549,964
	355,831	133,389	599,623	1,088,843
Gross available for sale investments	959,481	229,298	639,878	1,828,657
Allowance for impairment	-	(12,862)	(18,406)	(31,268)
Net available for sale investments	959,481	216,436	621,472	1,797,389
Total	960,693	324,628	640,629	1,925,950

* The available for sale investments include an investment of AED 205,652,700 (2008: AED 205,652,700 and 2007: AED 400,365,019) which was suspended for trading on the local stock market in November 2008. The investment is valued at the last traded price before its suspension on the local stock market.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

12 Other investments (continued)

	31 December 2008			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Equity instruments	953	234,199	86,976	322,128
Available for sale investments				
Quoted:				
Equity instruments	541,776	76,178	19,179	637,133
Unquoted:				
Equity instruments	212,863	134,151	192,363	539,377
Investment funds	273,473	-	375,017	648,490
	486,336	134,151	567,380	1,187,867
Gross available for sale investments	1,028,112	210,329	586,559	1,825,000
Allowance for impairment	(150)	(11,269)	(27,773)	(39,192)
Net available for sale investments	1,027,962	199,060	558,786	1,785,808
Total	1,028,915	433,259	645,762	2,107,936

	31 December 2007 (Restated)			
	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 income statement				
Equity instruments	5,327	606,611	208,911	820,849
Available for sale investments				
Quoted:				
Equity instruments	2,169,091	27,559	60,100	2,256,750
Unquoted:				
Equity instruments	137,989	132,287	148,915	419,191
Investment funds	-	392,870	223,882	616,752
	137,989	525,157	372,797	1,035,943
Gross available for sale investments	2,307,080	552,716	432,897	3,292,693
Allowance for impairment	-	(27,860)	(3,000)	(30,860)
Net available for sale investments	2,307,080	524,856	429,897	3,261,833
Total	2,312,407	1,131,467	638,808	4,082,682

The available for sale investments amounting to AED 1.83 billion (2008: AED 1.79 billion and 2007: AED 3.26 billion) is stated net of investments written down of AED 92.6 million (2008: AED 224 million and 2007: AED Nil) charged to the consolidated income statement during the year (refer note 50).

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

12 Other investments (continued)

Industry distribution of other investments is as follows:

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Banks and other financial institutions	**853,107**	861,320	2,303,316
Real estate	**507,213**	520,831	532,572
Manufacturing and others	**565,630**	725,785	1,246,794
	1,925,950	2,107,936	4,082,682

Unquoted available for sale investments are carried at cost, less provision for impairment, due to the unpredictable nature of future cash flows and the lack of other methods suitable for arriving at a reliable fair value.

Movements in the provision for impairment of available for sale investments are as follows:

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Balance, beginning of the year	**39,192**	30,860	14,899
Charge for the year (note 50)	**7,660**	10,794	23,961
Release to the consolidated income statement	**(15,743)**	(2,462)	(7,000)
Write-offs during the year	**-**	-	(1,000)
Other movements	**159**	-	-
Balance, end of the year	**31,268**	39,192	30,860

During 2008, the held for trading investments were reclassified to available for sale investments. The reclassification was made in accordance with the amendments to IAS 39 issued on 12 October 2008 with respect to reclassification of financial assets. The fair value at the date of reclassification of investments was AED 155.6 million. As at 31 December 2009, reclassified investments amounted to AED 56.9 million (2008: AED 76.2 million). During 2009, the reclassified investments amounting to AED 8.5 million (2008: AED Nil) were disposed.

13 Properties under construction

The movement in properties under construction during the year was as follows:

	2009 AED'000	2008 AED'000	2007 AED'000
Balance, beginning of the year	**257,830**	-	2,171,004
Additions	**130,818**	178,772	981,345
Disposals	**-**	-	(510,855)
Transfer to Deyaar P.J.S.C. (note 23)	**-**	-	(2,641,494)
Other transfers	**-**	79,058	-
Balance, end of the year	**388,648**	257,830	-

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

14 Properties held for sale

Properties held for sale represent properties in Egypt and Lebanon that are registered in the name of certain subsidiaries and branches of the Bank.

	2009 AED'000	2008 AED'000	2007 AED'000
Balance, beginning of year	**168,251**	131,831	136,585
Additions	**701**	100,809	-
Disposals (note 46)	**(12,464)**	(62,161)	-
Exchange gain/(losses)	**781**	(2,228)	(4,754)
Balance, end of the year	**157,269**	168,251	131,831

15 Investment properties

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Land			
In U.A.E.	**1,171,398**	1,171,601	1,171,537
Other G.C.C. Countries	**936**	936	936
Rest of World	**51,783**	51,766	66,113
	1,224,117	1,224,303	1,238,586
Less: Provision for impairment	**(300)**	(300)	(300)
	1,223,817	1,224,003	1,238,286
Other real estate			
In U.A.E.	**353,121**	366,271	304,923
Other G.C.C. Countries	**4,193**	4,193	6,904
Rest of World	**555,659**	538,424	593,305
	912,973	908,888	905,132
Less: Accumulated depreciation	**(140,502)**	(127,852)	(108,520)
	772,471	781,036	796,612
Investment properties, net	**1,996,288**	2,005,039	2,034,898

The fair value of the investment properties has been arrived at on the basis of a valuation carried out by independent valuers. The valuers are members of various professional valuers' associations, and have appropriate qualifications and recent experience in the valuation of properties at the relevant locations. The effective date of the valuations is 31 December 2009.

The fair value of the Bank's investment properties as of 31 December 2009 is AED 2.94 billion (2008: AED 4.30 billion and 2007: AED 3.08 billion).

Land in the U.A.E. includes land valued at AED 276.14 million (2008: AED 276.14 million and 2007: AED 276.14 million) donated by the Government of Dubai which has been allocated for the sole benefit of the Shareholders (refer note 33).

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

15 Investment properties (continued)

The movement in investment properties is as follows:

2009

	Land AED'000	Other Real Estate AED'000	Total AED'000
Cost:			
Balance, beginning of the year	**1,224,303**	**908,888**	**2,133,191**
Additions	**-**	**15,281**	**15,281**
Disposals	**-**	**(4,284)**	**(4,284)**
Transfers	**-**	**(8,867)**	**(8,867)**
Exchange effect	**(186)**	**1,955**	**1,769**
Balance, end of the year	**1,224,117**	**912,973**	**2,137,090**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	**300**	**127,852**	**128,152**
Charge for the year	**-**	**18,722**	**18,722**
Disposal	**-**	**(1,186)**	**(1,186)**
Transfers	**-**	**(5,320)**	**(5,320)**
Exchange effect	**-**	**434**	**434**
Balance, end of the year	**300**	**140,502**	**140,802**
Carrying amount			
31 December 2009	**1,223,817**	**772,471**	**1,996,288**

2008

	Land AED'000	Other Real Estate AED'000	Total AED'000
Cost:			
Balance, beginning of the year	1,238,586	905,132	2,143,718
Additions	306,608	61,350	367,958
Disposals	(306,544)	(40,181)	(346,725)
Transfers	(12,085)	(2,713)	(14,798)
Exchange effect	(2,262)	(14,700)	(16,962)
Balance, end of the year	1,224,303	908,888	2,133,191
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	108,520	108,820
Charge for the year	-	20,125	20,125
Exchange effect	-	(793)	(793)
Balance, end of the year	300	127,852	128,152
Carrying amount			
31 December 2008	1,224,003	781,036	2,005,039

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

15 Investment properties (continued)

2007 (Restated)

	Land AED '000	Other Real Estate AED '000	Total AED '000
Cost:			
Balance, beginning of the year	541,281	300,727	842,008
Additions	987,107	604,405	1,591,512
Transfer	-	24,417	24,417
Disposals	(289,802)	(24,417)	(314,219)
Balance, end of the year	1,238,586	905,132	2,143,718
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	80,495	80,795
Charge for the year	-	28,029	28,029
Disposals	-	(2,149)	(2,149)
Transfers	-	2,145	2,145
Balance, end of the year	300	108,520	108,820
Carrying amount			
31 December 2007	1,238,286	796,612	2,034,898

16 Receivables and other assets

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Income receivable	**322,978**	608,080	774,518
Rental income receivable	**596,679**	465,223	120,104
Trade receivables	**54,188**	75,858	80,561
Cheques sent for collection	**11,865**	14,840	240,825
Advances to contractors	**38,999**	-	30,811
Inventories	**9,443**	19,748	250,256
Prepaid expenses	**81,910**	47,382	55,448
Qard Hassan (profit-free facilities)	**8,000**	8,000	8,000
Overdrawn current accounts, net	**27,963**	6,206	4,833
Deferred taxation (note 29)	**18,057**	25,371	28,109
Islamic derivative assets (note 40)	**86,572**	111,411	-
Others	**207,417**	289,609	680,177
	1,464,071	1,671,728	2,273,642

Overdrawn current accounts, net are stated net of provision for impairment amounting to AED 43.25 million (2008: AED 28.53 million and 2007: AED 25.70 million).

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

17 Property, plant and equipment

2009

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
As of 1 January 2009	86,310	82,386	304,141	292,253	4,787	288,083	1,057,960
Additions	4,059	779	14,482	9,735	108	118,129	147,292
Disposals	-	-	(14,871)	(54)	(623)	-	(15,548)
Write offs during the year	-	-	-	-	-	(22,456)	(22,456)
Reclassification	-	-	8,867	-	-	-	8,867
Other transfers	-	-	37,681	53,868	-	(97,042)	(5,493)
Exchange adjustments	-	(313)	(4,205)	(2,203)	(107)	(89)	(6,917)
As of 31 December 2009	90,369	82,852	346,095	353,599	4,165	286,625	1,163,705
Accumulated depreciation:							
As of 1 January 2009	31,348	52,437	156,560	145,713	3,149	-	389,207
Charge for the year	1,754	3,914	58,889	50,651	800	-	116,008
Disposals	-	-	(2,912)	(54)	(423)	-	(3,389)
Reclassification	-	-	5,320	-	-	-	5,320
Exchange adjustments	-	(44)	(814)	(324)	(54)	-	(1,236)
As of 31 December 2009	33,102	56,307	217,043	195,986	3,472	-	505,910
Carrying amount							
31 December 2009	57,267	26,545	129,052	157,613	693	286,625	657,795

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)
17 Property, plant and equipment (continued)

2008

	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:							
As of 1 January 2008	211,428	80,782	293,869	188,698	28,730	158,104	961,611
Additions	29,909	2,459	43,828	35,994	129	303,850	416,169
Disposals	(155,027)	-	(63,928)	(4,646)	(22,167)	(13,508)	(259,276)
Other transfers	-	-	42,973	75,074	-	(156,431)	(38,384)
Exchange adjustments	-	(855)	(12,601)	(2,867)	(1,905)	(3,932)	(22,160)
As of 31 December 2008	86,310	82,386	304,141	292,253	4,787	288,083	1,057,960
Accumulated depreciation:							
As of 1 January 2008	36,266	49,158	124,364	110,104	11,052	-	330,944
Charge for the year	2,390	3,360	58,613	37,550	1,345	-	103,258
Disposals	(7,308)	-	(24,914)	(1,200)	(8,632)	-	(42,054)
Exchange adjustments	-	(81)	(1,503)	(741)	(616)	-	(2,941)
As of 31 December 2008	31,348	52,437	156,560	145,713	3,149	-	389,207
Carrying amount							
31 December 2008	54,962	29,949	147,581	146,540	1,638	288,083	668,753

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

17 Property, plant and equipment (continued)

2007

	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:							
As of 1 January 2007	306,835	79,868	188,193	127,301	26,727	29,851	758,775
Additions	1,187	3,064	95,370	66,837	9,904	153,194	329,556
Disposals	(73,047)	(2,128)	(13,013)	(5,991)	(7,861)	(836)	(102,876)
Other transfers	(24,417)	-	23,486	485	-	(23,971)	(24,417)
Exchange adjustments	870	(22)	(167)	66	(40)	(134)	573
As of 31 December 2007	211,428	80,782	293,869	188,698	28,730	158,104	961,611
Accumulated depreciation:							
As of 1 January 2007	36,411	46,659	81,136	87,465	11,503	-	263,174
Charge for the year	3,526	3,847	48,298	24,957	4,911	-	85,539
Disposals	(1,552)	(1,347)	(5,085)	(2,318)	(5,369)	-	(15,671)
Other transfers	(2,145)	-	-	-	-	-	(2,145)
Exchange adjustments	26	(1)	15	-	7	-	47
As of 31 December 2007	36,266	49,158	124,364	110,104	11,052	-	330,944
Carrying value							
31 December 2007	175,162	31,624	169,505	78,594	17,678	158,104	630,667

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

18 Goodwill

	2009 AED'000	2008 AED'000	2007 AED'000
At 1 January	**-**	36,910	36,910
Additions (note 21)	**34,516**	-	-
Written off during the year	**-**	(36,910)	-
At 31 December	**34,516**	-	36,910

Impairment testing of goodwill

During 2009, goodwill acquired through business combination has been allocated to Millennium Private Equity L.L.C. as a cash-generating unit.

In 2008, the investment in Bank of Khartoum had been partially diluted resulting in changes in classification of the investment from a subsidiary to an associate, the goodwill was written off (note 22).

19 Investments 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:

	2009 AED'000	2008 AED'000	2007 AED'000
Cash and balances with banks	**10,026**	8,327	9,371
Islamic financing and investing assets	**1,212**	953	4,275
Properties under construction	**47,798**	47,053	-
Receivables and other assets	**11,539**	12,849	28,669
Property, plant and equipment	**5,993**	4,022	3,574
Total assets	**76,568**	73,204	45,889
Other liabilities	**39,935**	34,337	10,284
Profit for the year	**10,465**	8,059	25,345

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

20 Disposal of interest in associates

In 2009, the Bank disposed its 32.5% interest in Millennium Finance Corporation ("MFC") in consideration of a 50% interest in Millennium Private Equity L.L.C. ("MPE"), a Company registered in U.A.E., amounting to USD 10.5 million (AED 38.6 million).

Further, Emirates National Securitisation Company ("ENSEC"), an associate, also adopted a voluntary dissolution in accordance with the shareholders resolution. The net assets of both companies along with their consideration are as follows:

	2009 AED'000
Carrying amount of investments in associates at the date of disposal	42,509
Less: consideration for disposal of associates – net	(37,806)
Net loss on disposal of associates (refer note 47)	4,703

21 Business combination

In 2009, the Bank acquired a 50% interest in Millennium Private Equity L.L.C. ("MPE") a Company based in U.A.E. and engaged in fund management activities. The fair value of the identifiable assets and liabilities of MPE acquired at that date were as follows:

	Recognised on acquisition 2009 AED'000
Cash and balances with banks	4,269
Other assets	9,964
Property and equipment	1,344
Total assets	15,577
Other liabilities	7,477
Total liabilities	7,477
Fair value of net assets – 100%	8,100
Consideration for acquisition	38,566
Less: fair value of identifiable net assets acquired	(4,050)
Goodwill arising on acquisition (refer note 18)	34,516

The fair value of the net assets has been arrived at on the basis of a valuation carried out by an external valuer that are not related to the Bank.

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

22 Dilution of interest in subsidiaries

Effective 1 February 2008, Bank of Khartoum (a subsidiary company as at that date) and Emirates and Sudan Bank, Sudan, were merged ("the transaction") and commenced operations as Bank of Khartoum. As part of the transaction, Bank of Khartoum issued 144,318,188 shares to the shareholders of Emirates & Sudan Bank at par resulting in dilution of the Bank's interest in Bank of Khartoum from 52.3% to 28.4%. The investment in the Bank of Khartoum is classified as investment in associates.

During the year 2008, the Bank partially disposed of its interest in Millennium Finance Corporation Limited (then a subsidiary) resulting in dilution of the Bank's interest from 65% to 32.5%. The Bank's investment in Millennium Financial Corporation Limited is classified as investment in associates.

The assets and liabilities of subsidiaries, where the Bank's interests had been diluted, as of 31 December 2007 were as follows:

	2007 AED'000
Cash and balances with banks	583,552
Islamic financing and investing assets	1,992,726
Equity investments	343,950
Investment properties	40,181
Prepayments and other assets	414,126
Property, plant and equipment	196,410
Total assets	3,570,945
Customers' Deposits	2,530,258
Due to banks and financial institutions	87,320
Accounts payable and accruals	448,542
Non-controlling interests	235,998
Total liabilities	3,302,118
Net assets	268,827
Profit on disposal of subsidiaries	36,517

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

23 Transfer of interest in subsidiary

The Bank transferred its entire interest in Deyaar Development Company P.S.C. (a subsidiary company) engaged in real estate development to Deyaar Development P.J.S.C. as at 30 May 2007 for a consideration of AED 2,600,000,000 to be settled by the issue of 2,600,000,000 shares of AED 1 each in Deyaar Development P.J.S.C. The assets and liabilities of Deyaar Development Company P.S.C. as of 30 May 2007 were as follows:

	30 May 2007 AED'000
Property, plant and equipment	14,956
Properties under construction	2,641,494
Accounts and notes receivable	245,267
Prepayments and other assets	382,079
Bank balances and cash	584,598
Total assets	3,868,394
Employees' end of service benefits	2,805
Retention payable	44,531
Islamic finance obligations	857,038
Term loan	1,346
Accounts payable and accruals	1,327,875
Non-controlling interest	3,763
Total liabilities	2,237,358
Net assets	1,631,036
Consideration	2,600,000
Profit arising on transfer	968,964

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

24 Customers' deposits

	2009 AED'000	2008 AED'000 (Restated)	2007 AED'000 (Restated)
a) By type:			
Current accounts	**14,015,030**	14,060,338	13,804,657
Saving accounts	**9,881,740**	11,151,372	8,730,070
Investment deposits	**40,023,078**	40,608,612	41,619,982
Margin accounts	**233,769**	281,497	450,800
Profit equalisation provision (note 54)	**41,886**	226,858	570,085
	64,195,503	66,328,677	65,175,594
b) By contractual maturity:			
Demand deposits	**24,556,123**	28,446,620	16,299,754
Deposits due within 3 months	**21,453,380**	23,335,037	27,040,433
Deposits due within 6 months	**7,684,018**	5,428,646	2,333,038
Deposits due within 1 year	**10,347,086**	8,763,923	17,998,356
Deposits due over 1 year	**154,896**	354,451	1,504,013
	64,195,503	66,328,677	65,175,594
c) By geographical areas:			
Within U.A.E.	**62,448,316**	62,137,369	59,598,309
Outside U.A.E.	**1,747,187**	4,191,308	5,577,285
	64,195,503	66,328,677	65,175,594
d) By currency:			
U.A.E. Dirham	**56,986,387**	60,227,445	53,163,825
Other currencies	**7,209,116**	6,101,232	12,011,769
	64,195,503	66,328,677	65,175,594

Refer to notes 27 and 61.1 respectively.

25 Due to banks and other financial institutions

	2009 AED'000	2008 AED'000	2007 AED'000
Current accounts	**53,890**	99,293	240,660
Investment deposits	**1,395,161**	3,231,808	2,000,662
	1,449,051	3,331,101	2,241,322

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

	2009 AED'000	2008 AED'000	2007 AED'000
Within the U.A.E.	**1,328,864**	3,024,538	607,158
Outside the U.A.E.	**120,187**	306,563	1,634,164
	1,449,051	3,331,101	2,241,322

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

26 Sukuk financing instruments

During 2007 the Bank, through a Sharia'a compliant Sukuk Financing arrangement, raised a medium term finance amounting to AED 2,754,750,000 (USD 750 million). The sukuks are listed on the NASDAQ Dubai and the London Stock Exchange.

The terms of the arrangement include transfer of certain identified assets ("the Co Owned Assets") including original leased and musharakat assets, Sharia'a compliant authorised investments and any replaced assets of the Bank to a Sukuk company, DIB Sukuk Company Limited – the Issuer, especially formed for the sukuk transaction. The assets are in the control of the Bank and shall continue to be serviced by the Bank. The sukuk certificates mature in 2012.

The issuer will pay the quarterly distribution amount from returns received in respect of the Co Owned Assets. Such proceeds are expected to be sufficient to cover the quarterly distribution amount payable to the sukuk holders on the quarterly distribution dates. Upon maturity of the sukuks, the Bank has undertaken to repurchase the assets at the exercise price.

The sukuks bear a variable profit rate payable to the investors based on the rate of 3 months LIBOR plus 0.33% per annum. Such profits are payable on a quarterly basis.

During 2009, sukuks amounting to USD 92.5 million (AED 340 million) were bought back at a discount, including buy back through a cash tender offer to sukuk holders. The Bank has recognised AED 38.7 million as a related gain on sukuk buy back which is included under other income. These sukuk certificates will be cancelled upon maturity when the Bank will re-purchase the Co Owned Assets.

27 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% – 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.

As at 31 December 2008, the amount was classified in customers' investment deposits (refer to note 24).

28 Other liabilities

	2009 AED'000	2008 AED'000	2007 AED'000 (Restated)
Depositors' share of profits (note 51)	**364,140**	582,527	607,980
Payable for properties	**171,079**	268,282	336,393
Bankers cheques	**255,300**	306,889	453,968
Cheques received for collection	**1,624**	204,589	209,148
Sundry deposits	**399,044**	180,264	381,704
Trade payables	**443,075**	461,523	480,615
Rent received in advance	**167,053**	186,547	88,468
Vendor payable for investing and financing assets	**665,724**	188,234	-
Provision for employees' end-of-service benefits	**89,554**	74,313	60,256
Unclaimed dividends	**38,964**	100,803	35,272
Provision for taxation (note 29)	**-**	3,544	3,484
Directors' remuneration	**4,800**	5,350	5,350
Payable to contractors	**4,856**	3,872	6,082
Fund transfer and remittances	**74,664**	160,138	-
Investments related payable	**293,585**	293,585	293,585
Others	**397,342**	429,072	431,281
	3,370,804	3,449,532	3,393,586

29 Taxation

	2009 AED'000	2008 AED'000	2007 AED'000
Provision for taxation			
Opening balance	**3,544**	3,484	37,823
Charge for the year	**892**	3,544	952
Tax paid	**(4,436)**	-	(35,291)
Relating to subsidiary disposed off	**-**	(3,484)	-
Closing balance (note 28)	**-**	3,544	3,484
Deferred tax asset			
Deferred tax asset at beginning of the year	**25,371**	28,109	13,009
(Reversals)/additions during the year	**(5,952)**	5,679	15,100
Exchange effect	**(1,362)**	(8,417)	-
Deferred tax asset at the end of the year (note 16)	**18,057**	25,371	28,109
Tax (expense)/reversal for the year			
Current taxation	**(892)**	(3,544)	(952)
Deferred taxation	**(5,952)**	5,679	15,100
Income tax (expense)/reversal	**(6,844)**	2,135	14,148

30 Accrued Zakat

	2009 AED'000	2008 AED'000	2007 AED'000
Zakat on Shareholders' equity	**139,428**	134,557	118,660
Zakat on profit equalisation provision (note 54)	**1,108**	8,609	10,882
	140,536	143,166	129,542

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

31 Share capital

	2009		2008		2007	
	Number of Shares'000	Amount in AED'000	Number of shares'000	Amount in AED'000	Number of shares'000	Amount in AED'000
Authorised						
Ordinary shares of AED 1 each	**3,617,505**	**3,617,505**	3,445,400	3,445,400	3,000,000	3,000,000
Issued and fully paid up						
At 1 January	**3,445,400**	**3,445,400**	2,996,000	2,996,000	2,800,000	2,800,000
Bonus shares	**172,105**	**172,105**	449,400	449,400	196,000	196,000
At 31 December	**3,617,505**	**3,617,505**	3,445,400	3,445,400	2,996,000	2,996,000

During the year 172,105,000 shares of AED 1 each were issued as bonus shares (2008: 449,400,000 shares and 2007: 196,000,000 shares).

32 Treasury shares

The treasury shares includes the shares acquired from a third party on settlement of certain transactions. The Bank intends to dispose of these shares in 2010.

33 Reserves

	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Exchange translation reserve AED'000	Total AED'000
As of 1 January 2007	2,761,030	286,951	895,000	30,323	3,973,304
Exchange and other adjustments	-	-	-	(2,983)	(2,983)
Reversal of share premium in a subsidiary	(4,293)	-	-	-	(4,293)
Transfer from retained earnings	-	-	755,000	-	755,000
Relating to disposal of donated land	-	(10,812)	-	-	(10,812)
As of 1 January 2008	2,756,737	276,139	1,650,000	27,340	4,710,216
Exchange and other adjustments	-	-	-	(87,020)	(87,020)
Transfer from retained earnings	-	-	600,000	-	600,000
Movement as a result of disposed subsidiaries	(24,858)	-	-	-	(24,858)
As of 1 January 2009	2,731,879	276,139	2,250,000	(59,680)	5,198,338
Exchange and other adjustments	-	-	-	(18,161)	(18,161)
Transfer from retained earnings	-	-	100,000	-	100,000
As of 31 December 2009	2,731,879	276,139	2,350,000	(77,841)	5,280,177

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

33 Reserves (continued)

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 statutory reserve includes AED 2,000 million being the premium collected at AED 2 per share on the rights issue during 2006.

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 15). The donated land reserve represents the fair value of the land, net of disposals, at the time of the donation.

General reserve

Transfer to general reserve is made based on the discretion of the Board of Directors and is subject to the approval of the Shareholders at the annual general meeting.

34 Cumulative changes in fair value

	2009 AED'000	2008 AED'000	2007 AED'000
At 1 January	**(888,714)**	1,006,637	544,649
Realised on disposal of available for sale investments	**(309)**	(58,590)	(116,430)
Unrealised gain/(loss) on available for sale investments	**165,310**	(1,836,761)	578,418
At 31 December	**(723,713)**	(888,714)	1,006,637

35 Dividends paid and proposed

	2009 AED'000	2008 AED'000	2007 AED'000
Cash dividend:			
(2009: AED 0.15 per share of AED 1 each)	**538,648**	-	-
(2008: AED 0.25 per share of AED 1 each)	**-**	860,523	-
(2007: AED 0.40 per share of AED 1 each)	**-**	-	1,198,400
Scrip dividend			
(2009: AED 0.05 per share of AED 1 each)	**179,549**	-	-
(2008: AED 0.05 per share of AED 1 each)	**-**	172,105	-
(2007: AED 0.15 per share of AED 1 each)	**-**	-	449,400

Dividends relating to the year 2008 were declared and paid/issued during the year. Proposed cash dividend relating to the year 2009 are subject to the approval of the Shareholders at the Annual General Meeting to be held on 31 March 2010.

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

36 Hedging reserve

During the year the Bank discontinued its cash flow hedge of a forecast transaction. The discontinuance of the hedge accounting resulted in reclassification of associated cumulative gains amounting to AED 45.2 million (2008: AED Nil) from the hedging reserve to consolidated income statement. Refer to note 44.

37 Employee stock Ownership plan (ESOP)

In 2004, the Bank established an Employee Stock Ownership Plan (ESOP) to recognise and retain key employees. The plan gives the employee the right to own the Bank's shares at the issue price. In accordance with a resolution of the Shareholders of the Bank at the Extraordinary General Meeting of Shareholders held on 26 June 2004, the shareholders surrendered 2% of their share entitlement under the Bank's rights issue, at the rights issue price of AED 20 per share, for the benefit of the Bank's employees under this plan. Under this arrangement, the bank acquired 913,999 of its own shares at the issue price of AED 20 per share.

The Bank granted 502,699 shares during 2004 at the rights issue price of AED 20 per share to key employees who achieved certain pre-determined criteria. These employees' entitlement to ownership became effective on or before 31 December 2004.

The remaining 411,300 shares of AED 10 each acquired by the Bank under this scheme were held as ESOP shares and were equivalent to 4,113,000 shares of AED 1 each after the share split during 2005. The cost of acquisition of these shares was AED 8,226 thousand at the rate of AED 20 per share of a nominal value of AED 10 each or AED 2 per share after the share split.

These shares were issued at AED 2 each during the previous year, 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 three 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. 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 these shares on the grant date was AED 109,817,000. Accordingly, at the grant date, an amount of AED 101,591,000, being the fair value less the amounts recoverable from the employees, was determined to be charged to the consolidated income statement over the vesting period. In 2008, a number of staff have left the Bank, and 1,576,836 shares have been taken back. As a result the yearly charge on account of ESOP have been changed prospectively as follows:

Year	*Current charge to consolidated income statement* AED '000	*Charge to consolidated income statement at grant date* AED '000
2006	30,312	30,312
2007	36,846	36,846
2008	18,069	25,085
2009	5,444	6,856
2010	478	2,492
Total	91,149	101,591

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

38 Non-controlling interest

Non-controlling interest represents the minority shareholders' proportionate share in the aggregate value of the net assets of the subsidiaries and the results of the subsidiaries operations.

39 Contingent liabilities and commitments

Financing-related financial instruments

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

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

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

	2009 AED'000	2008 AED'000	2007 AED'000
Contingent liabilities:			
Acceptances	**479,915**	603,081	1,462,287
Letters of credit	**3,040,028**	3,387,529	6,161,796
Letters of guarantee	**10,484,586**	17,476,434	10,381,479
	14,004,529	21,467,044	18,005,562
Commitments:			
Capital expenditure commitments	**416,257**	591,975	578,299
Irrevocable undrawn facilities commitments	**11,217,244**	22,583,592	9,391,000
	11,633,501	23,175,567	9,969,299
Total contingent liabilities and commitments	**25,638,030**	44,642,611	27,974,861

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

40 Islamic derivatives

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2009: Notional amounts by term to maturity

	Positive fair value AED'000	*Negative fair value* AED'000	*Notional amount total* AED'000	*Within 3 months* AED'000	*Over 3 months to 1 year* AED'000	*Over 1 year to 3 years* AED'000	*Over 3 to 5 years* AED'000	*Over 5 years* AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	13,793	16,457	8,428,233	3,807,118	1,332,980	2,904,929	383,206	-
Islamic profit rate Swaps (refer note 16)	275,548	188,976	12,609,741	-	-	-	12,217,140	392,601
	289,341	205,433	21,037,974	3,807,118	1,332,980	2,904,929	12,600,346	392,601

31 December 2008: Notional amounts by term to maturity

	Positive fair value AED'000	*Negative fair value* AED'000	*Notional amount total* AED'000	*Within 3 months* AED'000	*Over 3 months to 1 year* AED'000	*Over 1 year to 3 years* AED'000	*Over 3 to 5 years* AED'000	*Over 5 years* AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	47,463	68,062	11,255,642	3,795,463	6,174,629	1,285,550	-	-
Islamic profit rate swaps	231,735	227,776	9,559,792	-	-	-	9,206,987	352,805
	279,198	295,838	20,815,434	3,795,463	6,174,629	1,285,550	9,206,987	352,805
Islamic Derivatives held as cash flow hedge:								
Islamic profit rate swaps (note 16)	111,411	-	2,000,000	-	-	-	2,000,000	-
	390,609	295,838	22,815,434	3,795,463	6,174,629	1,285,550	11,206,987	352,805

31 December 2007: Notional amounts by term to maturity

	Positive fair value AED'000	*Negative fair value* AED'000	*Notional amount total* AED'000	*Within 3 months* AED'000	*Over 3 months to 1 year* AED'000	*Over 1 year to 3 years* AED'000	*Over 3 to 5 years* AED'000	*Over 5 years* AED'000
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	33,726	29,633	14,936,790	12,009,606	356,084	2,571,100	-	-
Islamic profit rate swaps	33,052	33,052	4,530,033	-	-	1,941,443	2,588,590	-
	66,778	62,685	19,466,823	12,009,606	356,084	4,512,543	2,588,590	-

The Bank has positions in the following types of derivative.

40 Islamic derivatives (continued)

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 Wa'ad (promise) structure between two parties to buy a specified Sharia'a compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. Islamic swap structure comprises profit rate swap and currency swap. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments by executing the purchase/sale of commodity under "Murabaha Sale Agreement" in a single currency. For Islamic currency swaps, fixed or floating profit payments as well as cost of underlying commodity are exchanged in different currencies, by executing the purchase/sale of commodity under "Murabaha Sale Agreement".

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and strategic hedging (see below). Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and profit rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures.

For profit rate risk, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into profit rate swaps. As strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

41 Income from Islamic financing and investing assets

	2009 AED'000	2008 AED'000
Financing assets		
Commodities murabahat	**454,259**	624,216
International murabahat	**18,046**	30,941
Vehicles murabahat	**486,540**	457,142
Real estate murabahat	**352,726**	414,346
Total murabahat income	**1,311,571**	1,526,645
Istisna'a	**408,560**	267,306
Ijara	**572,602**	514,260
Income from financing assets	**2,292,733**	2,308,211
Investing assets		
Musharakat	**625,053**	445,769
Mudarabat	**354,791**	378,092
Wakalat	**42,945**	65,590
Others	**7,335**	7,178
Income from investing assets	**1,030,124**	896,629
Total income from Islamic financing and investing assets	**3,322,857**	3,204,840

Income from investing and financing assets is presented net of forfeited income of AED 8.97 million (2008: AED 10.61 million).

42 Income from International Murabahats, short term

	2009 AED'000	2008 AED'000
Income from international murabahats	**20,087**	242,098
Income from investment and wakala deposits	**31,391**	24,110
	51,478	266,208

43 Loss from other investments

	2009 AED'000	2008 AED'000
(Loss)/gain on disposal of investments carried at fair value through profit or loss	**(6,841)**	9,534
Loss on revaluation of investments carried at fair value through profit or loss	**(53,562)**	(277,068)
Dividend on investments carried at fair value through profit or loss	**16,310**	26,987
Realised gain on disposal of available for sale investments	**-**	58,590
Dividend on available for sale equity investments	**23,336**	89,197
Dividend from available for sale investment funds	**1,822**	31,465
	(18,935)	(61,295)

Dividend on available for sale investment is presented net of forfeited income of AED 3.05 million (2008: AED Nil).

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

44 Commissions, fees and foreign exchange income

	2009 AED'000	2008 AED'000
Trade related commission and fees	**237,930**	301,164
Other commissions and fees	**414,290**	447,079
Gains on unilateral promise to buy/sell currencies	**99,842**	119,925
Fair value of Islamic derivatives	**107**	3,959
	752,169	872,127

Other commission and fees includes AED 45.2 million (2008: Nil) on account of reclassification of associated cumulative gains from the hedging reserve to the consolidated income statement. Refer to note 36.

Other commission and fees is presented net of forfeited income of AED 1.20 million (2008: AED Nil).

45 Income from investment properties

	2009 AED'000	2008 AED'000
Net rental income	**75,609**	90,657
Gain on sale of investment properties	**2,691**	89,744
	78,300	180,401

46 Income from sale of properties held for sale

	2009 AED'000	2008 AED'000
Sales proceeds	13,461	93,879
Cost of sale (note 14)	(12,464)	(62,161)
	997	31,718

47 Other income

	2009 AED'000	2008 AED'000
Services income, net	**32,446**	89,492
Loss on disposal of interest in associates (note 20)	**(4,703)**	-
Others	**158,710**	9,231
	186,453	98,723

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

48 Personnel expenses

	2009 AED'000	2008 AED'000
Salaries and wages	**712,859**	758,922
Staff terminal benefits	**22,200**	24,012
Share based payments	**5,444**	18,069
Others	**72,699**	81,494
	813,202	882,497

49 General and administrative expenses

	2009 AED'000	2008 AED'000
Administrative expenses	**110,029**	131,065
Depreciation of property, plant and equipment (note 17)	**116,008**	103,258
Rental charges payable under operating leases	**67,082**	58,944
Communication costs	**53,507**	47,076
Premises and equipment maintenance costs	**42,869**	41,105
Printing and stationery	**11,713**	12,243
Miscellaneous write offs	**23,997**	-
Others	**99,555**	123,354
	524,760	517,045

50 Net impairment loss on financial assets

	2009 AED'000	2008 AED'000
Provision/(reversal) for investing assets	**45,406**	(18,309)
Provision for financing assets	**671,284**	235,668
Provision for receivables and other assets	**15,737**	8,469
Provision for guarantees	**-**	2,670
Impairment loss on available for sale investments	**92,660**	232,332
Impairment loss on investments in associates	**8,565**	60,000
Reversal in provision for available for sale investment funds	**(15,743)**	-
	817,909	520,830

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

51 Depositors' share of profits

	2009 AED'000	2008 AED'000 (Restated)
Share for the year	**1,739,197**	1,777,672
Less: Pertaining to depositors' profit equalisation provision (Note 54)	**(11,636)**	(25,415)
Transfer from depositors' profit equalisation provision (Note 54 and 61.1)	**195,500**	201,267
	1,923,061	1,953,524
Less: Paid during the year	**(1,558,921)**	(1,370,997)
Depositors' share of profit payable (Note 28)	**364,140**	582,527
Share of profits accrued to customers and financial institutions are as follows:		
Investment and savings deposits from customers	**1,176,329**	1,364,720
Wakala and other investment deposits from banks and customers	**529,138**	311,439
Profit accrued on sukuk financing instrument	**33,730**	101,513
	1,739,197	1,777,672

52 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:

	2009	2008 (Restated)
Profit for the year net of directors' remuneration of AED 4,800,000 (2008: AED 5,350,000)	**1,202,691,000**	1,548,977,000
Weighted average number of shares of AED 1 each outstanding during the year	**3,613,331,000**	3,615,928,000
Basic and diluted earnings per share in AED	**0.33**	0.43

The earnings per share of AED 0.50 as reported for 2008 has been adjusted for the effect of the shares issued in 2009 as a result of the bonus shares and prior period adjustment (refer to note 61.1).

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.

53 Cash and cash equivalents

	2009 AED'000	2008 AED'000
Cash and balances with central banks	**11,611,570**	6,328,666
International murabahat with financial institutions, short term	**1,204,959**	1,640,601
Balances and deposits with banks and financial institutions	**1,352,299**	1,840,978
	14,168,828	9,810,245
Less: Balances and deposits with banks with original maturity over 3 months	**(88,836)**	-
	14,079,992	9,810,245

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

54 Profit equalisation provision

	2009 AED'000	2008 AED'000 (Restated)
Balance, beginning of the year – as reported	**226,858**	570,085
Transfer from retained earnings for share of profit pertaining to prior years	**-**	(158,766)
Share of profit for the year (note 51)	**11,636**	25,415
Zakat for the year (note 30)	**(1,108)**	(8,609)
Additional transfer to depositors' share of profit during the year (notes 51 and 61.1)	**(195,500)**	(201,267)
Balance, end of the year (note 24)	**41,886**	226,858

Profit equalisation provision represents a portion of the depositors' share of profits set aside as a provision. This provision is payable to the depositors upon the approval of the Board of Directors and the Bank's Fatwa and Sharia'a Supervisory Board. Zakat on profit equalisation provision is included under accrued Zakat.

55 Related party transactions

The Bank enters into 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.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	Major Share holders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2009				
Financing and investing assets	**3,812,737**	**182,362**	**513,774**	**4,508,873**
Customers' deposits	**5,065,054**	**55,652**	**287,281**	**5,407,987**
Income from financing and investing assets	**73,252**	**12,194**	**14,562**	**100,008**
Depositors' share of profits	**38,443**	**988**	**1,910**	**41,341**
Contingent liabilities	**2,038,091**	**890**	**700**	**2,039,681**
2008				
Financing and investing assets	5,365,704	192,558	779,580	6,337,842
Customers' deposits	2,971	13,051	158,559	174,581
Income from financing and investing assets	27,260	4,991	18,829	51,080
Depositors' share of profits	59	74	400	533
Contingent liabilities	1,719,843	5	105,970	1,825,818

The compensation paid to key management personnel of the Bank is as follows:

	2009 AED'000	2008 AED'000
Salaries and other benefits	**45,164**	38,780
Employee terminal benefits	**1,612**	1,020

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

56 Segmental information

The Bank has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14: Segment Reporting) required an entity to identify two segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Bank as the segments reported by the Bank was consistent with the internal reports provided to the chief operating decision maker.

For operating purposes the Bank is organised into four major business segments as follows:

i) Retail and business banking: Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahats, ijarah, islamic card and funds transfer facilities and trade finance facilities.

ii) Corporate and investment banking: Principally handling financing and investing 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) Others: Treasury and other functions.

These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at estimated profit rates which approximate market rates on an arm's length basis.

Primary segment information – business segments

2009

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 2009:

	Retail and business banking AED'000	Corporate and investment banking AED'000	Real estate AED'000	Others AED'000	Total AED'000
Segment revenue, net	1,564,149	1,363,520	(84,664)	550,712	3,393,717
Operating expenses	(840,229)	(346,650)	(52,649)	(117,155)	(1,356,683)
Net impairment losses on financial assets	(134,044)	(679,548)	-	(4,317)	(817,909)
Profit for the year before depositors' share and taxation	589,876	337,322	(137,313)	429,240	1,219,125
Income tax expense					(6,844)
Net profit for the year					1,212,281
Segment assets	10,318,903	44,308,289	5,347,653	24,329,426	84,304,271
Segment liabilities and equity	44,896,686	27,753,025	1,049,435	10,605,125	84,304,271
Capital expenditure	62,438	333,005	-	20,814	416,257

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

56 Segmental information (continued)

Primary segment information – business segments (continued)

2008 (Restated)

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 2008 (Restated):

	Retail and business banking AED'000	Corporate and investment banking AED'000	Real estate AED'000	Others AED'000	Total AED'000
Segment revenue, net	1,291,730	1,573,212	11,987	615,760	3,492,689
Operating expenses	(828,307)	(448,533)	(24,712)	(118,115)	(1,419,667)
Net impairment losses on financial assets	(55,178)	(458,405)	-	(7,247)	(520,830)
Profit for the year before depositors' share and taxation	408,245	666,274	(12,725)	490,398	1,552,192
Income tax deferred					2,135
Net profit for the year					1,554,327
Segment assets	10,208,514	53,852,198	5,266,322	15,429,583	84,756,617
Segment liabilities and equity	40,671,022	33,110,601	467,595	10,507,399	84,756,617
Capital expenditure	62,881	508,286	-	20,808	591,975

Secondary segment information – geographical segments

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

	Domestic		International		Total	
	2009 AED'000	2008 AED'000 (Restated)	2009 AED'000	2008 AED'000 (Restated)	2009 AED'000	2008 AED'000 (Restated)
Gross income	**4,694,063**	4,726,967	**438,852**	543,394	**5,132,915**	5,270,361
Total assets	**76,872,268**	77,783,659	**7,432,003**	6,972,958	**84,304,271**	84,756,617
Total liabilities and equity	**79,429,952**	76,986,759	**4,874,319**	7,769,858	**84,304,271**	84,756,617
Capital expenditure	**285,822**	559,809	**130,435**	32,166	**416,257**	591,975

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

57 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 2009

	Less than one month AED'000	1-3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	7,868,036	3,743,534	-	-	-	11,611,570
Balances and deposits with banks and other financial institutions	666,321	685,978	-	-	-	1,352,299
International murabahats, short term	1,204,959	-	-	-	-	1,204,959
Islamic financing and investing assets	5,483,365	3,725,723	4,442,826	24,778,197	11,494,830	49,924,941
Investment in Islamic sukuk	-	2,550	1,174,732	5,741,513	2,372,002	9,290,797
Investments in associates	-	-	-	-	4,295,168	4,295,168
Other investments	-	-	1,022,954	902,996	-	1,925,950
Properties under construction	-	-	-	388,648	-	388,648
Properties held for sale	-	-	157,269	-	-	157,269
Investment properties	-	-	-	1,996,288	-	1,996,288
Receivables and other assets	87,719	56,572	1,319,780	-	-	1,464,071
Property, plant and equipment	7,818	15,636	70,361	523,279	40,701	657,795
Goodwill	-	-	-	-	34,516	34,516
Total assets	15,318,218	8,229,993	8,187,922	34,330,921	18,237,217	84,304,271
Liabilities:						
Customers' deposits	12,263,174	7,429,426	24,824,200	19,678,703	-	64,195,503
Due to banks and other financial institutions	151,551	48,831	1,248,669	-	-	1,449,051
Sukuk financing instruments	-	-	-	2,415,034	-	2,415,034
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	849,740	177,180	1,924,237	419,647	-	3,370,804
Accrued zakat	-	-	140,536	-	-	140,536
Equity	-	-	765,759	(723,713)	8,938,754	8,980,800
Total liabilities and equity	13,264,465	7,655,437	28,903,401	21,789,671	12,691,297	84,304,271
Net maturities gap	2,053,753	574,556	(20,715,479)	12,541,250	5,545,920	-

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

57 Maturity analysis of assets and liabilities (continued)

At 31 December 2008 (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	2,070,520	4,258,146	-	-	-	6,328,666
Balances and deposits with banks and other financial institutions	527,111	1,313,867	-	-	-	1,840,978
International murabahats, short term	1,640,601	-	-	-	-	1,640,601
Islamic financing and investing assets	5,509,723	7,302,115	11,833,098	19,913,751	8,100,324	52,659,011
Investment in Islamic sukuk	-	-	2,203,800	7,709,492	1,312,984	11,226,276
Investments in associates	-	-	-	4,181,548	-	4,181,548
Other investments	-	-	-	2,107,936	-	2,107,936
Properties under construction	-	-	-	257,830	-	257,830
Properties held for sale	-	-	-	168,251	-	168,251
Investment properties	-	-	-	2,005,039	-	2,005,039
Receivables and other assets	21,965	15,861	1,493,463	131,773	8,666	1,671,728
Property, plant and equipment	1,255	2,498	10,426	626,715	27,859	668,753
Total assets	9,771,175	12,892,487	15,540,787	37,102,335	9,449,833	84,756,617
Liabilities:						
Customers' deposits	8,135,907	15,511,748	22,900,502	19,774,354	6,166	66,328,677
Due to banks and other financial institutions	348,534	113,113	2,869,454	-	-	3,331,101
Sukuk financing instruments	-	-	-	2,754,750	-	2,754,750
Other liabilities	1,639,061	624,368	287,351	898,752	-	3,449,532
Accrued zakat	-	-	143,166	-	-	143,166
Equity	-	-	861,350	-	7,888,041	8,749,391
Total liabilities and equity	10,123,502	16,249,229	27,061,823	23,427,856	7,894,207	84,756,617
Net maturities gap	(352,327)	(3,356,742)	(11,521,036)	13,674,479	1,555,626	-

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

58 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.

The fair value of unilateral promise to buy/sell currencies and Islamic swaps is set out in note 40. The fair value of the Bank's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2009.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) the carrying amounts approximate to their fair value. This applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Valuation of all financial instruments recorded at fair value, is based on quoted market prices.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:
  - **Level 1** – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities and investments in Islamic sukuk.
  - **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC Islamic derivative contracts. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.
  - **Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and Islamic financing instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	128,561	-	-	128,561
Islamic derivative financial assets held for trading	-	86,572	-	86,572
Available-for-sale financial assets				
Quoted equities	739,814	-	-	739,814
Investment in Islamic sukuk	969,683	-	-	969,693
Total	1,838,058	86,572	-	1,924,630

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

59 Financial assets and liabilities

At 31 December 2009

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	10,120,397	10,120,397
Balances and deposits with banks and financial institutions	-	-	-	1,352,299	1,352,299
International murabahat, short term	-	-	-	1,204,959	1,204,959
Islamic financing and investing assets	49,924,941	-	-	-	49,924,941
Investment in Islamic sukuk	-	969,683	-	8,321,114	9,290,797
Other investments	-	1,797,389	128,561	-	1,925,950
Receivables and other assets	1,354,661	-	-	-	1,354,661
	51,279,602	2,767,072	128,561	20,998,769	75,174,004
Financial liabilities					
Customer deposits	-	-	-	64,195,503	64,195,503
Due to banks and other financial institutions	-	-	-	1,449,051	1,449,051
Sukuk financing instruments	-	-	-	2,415,034	2,415,034
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	-	3,370,804	3,370,804
	-	-	-	75,182,935	75,182,935

At 31 December 2008 (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	-	-	-	5,035,257	5,035,257
Balances and deposits with banks and financial institutions	-	-	-	1,840,978	1,840,978
International murabahat, short term	-	-	-	1,640,601	1,640,601
Islamic financing and investing assets	52,659,011	-	-	-	52,659,011
Investment in Islamic sukuk	-	-	-	11,226,276	11,226,276
Other investments	-	1,785,808	322,128	-	2,107,936
Receivables and other assets	1,580,227	-	-	-	1,580,227
	54,239,238	1,785,808	322,128	19,743,112	76,090,286
Financial liabilities					
Customer deposits	-	-	-	66,328,677	66,328,677
Due to banks and other financial institutions	-	-	-	3,331,101	3,331,101
Sukuk financing instruments	-	-	-	2,754,750	2,754,750
Other liabilities	-	-	-	3,449,532	3,449,532
	-	-	-	75,864,060	75,864,060

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management

60.1 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 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.

60.1.1 Risk management structure

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

Board of Directors

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

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 and Control

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 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.

60.1.2 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.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.1 Introduction (continued)

60.1.3 Risk mitigation

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

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

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

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

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

60.1.4 Risk concentration

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

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

60.2 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

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

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of Islamic financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

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

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.2 Credit risk (continued)

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. Whilst some of the models for assessment of Real Estate projects are internally developed, others for the Corporate, Contracting and SME businesses have been acquired from Moody's and are housed with the Moody's Risk Analyst rating tool, which has been implemented during 2009.

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

Collateral

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

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Islamic derivative financial instruments

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

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.

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

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

	Gross maximum exposure 2009 AED'000	Gross maximum exposure 2008 AED'000
Balances with central banks	**10,120,397**	5,035,257
Balances and deposits with banks and other financial institutions	**1,352,299**	1,840,978
International murabahat, short term	**1,204,959**	1,640,601
Islamic financing and investing assets	**51,873,243**	53,904,212
Investment in Islamic sukuk	**9,290,797**	11,226,246
Other investments	**1,953,293**	2,147,128
Receivables and other assets	**1,456,394**	1,646,978
	77,251,382	77,441,400
Contingent liabilities	**14,004,529**	21,467,044
Commitments	**11,633,501**	22,583,592
Total	**102,889,412**	121,492,036

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.2 Credit risk (continued)

60.2.2 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:

	Retail and business banking AED'000	Corporate and investment banking AED'000	Real estate AED'000	Total AED'000
At 31 December 2009				
U.A.E.	**11,244,218**	**61,559,444**	**20,176,507**	**92,980,169**
GCC	**-**	**2,950,949**	**2,170,854**	**5,121,803**
South Asia	**472,148**	**1,795,872**	**-**	**2,268,020**
Europe	**-**	**1,741,493**	**-**	**1,741,493**
Africa	**-**	**314,591**	**-**	**314,591**
Others	**-**	**446,576**	**16,760**	**463,336**
Total	**11,716,366**	**68,808,925**	**22,364,121**	**102,889,412**
At 31 December 2008				
U.A.E.	9,622,299	73,806,407	26,146,812	109,575,518
G.C.C.	-	2,800,554	5,219,631	8,020,185
South Asia	586,215	1,587,269	-	2,173,484
Europe	-	928,756	-	928,756
Africa	-	352,859	-	352,859
Others	-	408,912	32,322	441,234
Total	10,208,514	79,884,757	31,398,765	121,492,036

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

	Gross maximum Exposure	
	2009 AED'000	2008 AED'000
Financial Institutions	**23,142,723**	18,198,657
Government	**6,835,125**	9,914,793
Manufacturing and services	**16,012,319**	35,460,576
Real Estate	**38,044,981**	37,052,940
Retail	**8,917,311**	7,626,802
Trade	**9,936,953**	13,238,268
Total	**102,889,412**	121,492,036

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.2 Credit risk (continued)

60.2.3 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.

60.2.4 Credit quality per class of financial assets

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

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
At December 2009				
Balances with Central banks	**10,120,397**	**-**	**-**	**10,120,397**
Balances and deposits with banks and other financial institutions	**1,352,299**	**-**	**-**	**1,352,299**
International murabahat, short term	**1,204,959**	**-**	**-**	**1,204,959**
Islamic financing and investing assets	**45,132,195**	**3,634,043**	**3,107,005**	**51,873,243**
Investment in Islamic sukuks	**9,290,797**	**-**	**-**	**9,290,797**
Other investments	**1,842,903**	**-**	**110,390**	**1,953,293**
Receivables and other assets	**1,385,180**	**27,963**	**43,251**	**1,456,394**
	70,328,730	**3,662,006**	**3,260,646**	**77,251,382**
Contingent liabilities	**14,004,529**	**-**	**-**	**14,004,529**
Commitments	**11,633,501**	**-**	**-**	**11,633,501**
	25,638,030	**-**	**-**	**25,638,030**
Total	**95,966,760**	**3,662,006**	**3,260,646**	**102,889,412**
At December 2008				
Balances with Central banks	5,035,257	-	-	5,035,257
Balances and deposits with banks and other financial institutions	1,840,978	-	-	1,840,978
International murabahat, short term	1,640,601	-	-	1,640,601
Islamic financing and investing assets	48,860,455	2,816,879	2,226,878	53,904,212
Investment in Islamic sukuks	11,226,246	-	-	11,226,246
Other investments	1,906,037	-	241,091	2,147,128
Receivables and other assets	1,618,452	-	28,526	1,646,978
Total	72,128,026	2,816,879	2,496,495	77,441,400
Contingent liabilities	21,467,044	-	-	21,467,044
Commitments	22,583,592	-	-	22,583,592
	44,050,636	-	-	44,050,636
Total	116,178,662	2,816,879	2,496,495	121,492,036

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.2 Credit risk (continued)

60.2.4 Credit quality per class of financial assets (continued)

Past due financing and investing assets include those that are only past due by a few days. An analysis of past due investing and financing assets, by age, is provided. The majority of the past due investing and financing assets are not considered to be impaired.

Credit risk exposure of the Bank's financial assets for each internal risk rating

	Moody's equivalent grades	Total 2009 AED'000	Total 2008 AED'000
Low risk			
Risk rating class 1	Aaa	13,812,166	22,078,924
Risk rating classes 2 and 3	Aa1-A3	29,601,113	46,702,299
Fair risk			
Risk rating class 4	Baa1-Baa3	24,631,065	18,793,542
Risk rating classes 5 and 6	Ba1-B3	26,424,077	25,556,763
Risk rating class 7	Caa1-Caa3	1,561,687	3,047,127
Sub standard			
Risk rating class 8		3,662,006	2,816,879
Impaired			
Risk rating classes 9, 10 and 11		3,197,298	2,496,502
		102,889,412	121,492,036

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.

60.2.5 Aging analysis of past due but not impaired investing and financing assets per class of financial assets

	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 December 2009					
Islamic financing andinvesting assets	**1,350,921**	**725,390**	**180,007**	**1,377,725**	**3,634,043**
As at December 2008					
Islamic financing and investing assets	1,437,388	410,004	213,956	755,531	2,816,879

See Note 50 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.2 Credit risk (continued)

60.2.6 Carrying amount per class of financial assets whose terms have been renegotiated

The table below shows the carrying amount for renegotiated financial assets, by class.

	2009 AED'000	2008 AED'000
Islamic financing and investing assets	**1,034,439**	155,161

60.2.7 Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

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

60 Risk management (continued)

60.3 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 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.

60.3.1 Liquidity risk management process

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

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

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

	March	June	September	December
2009	**24%**	**19%**	**12%**	**18%**
2008	28%	21%	11%	10%

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.3 Liquidity risk and funding management (continued)

60.3.2 Funding approach

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

60.3.3 Non-derivative cash flows

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

As at 31 December 2009

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	6,376,863	3,743,534	-	-	-	10,120,397
Balances and deposits with financial institutions	666,321	692,838	-	-	-	1,359,159
International murabahats, short term	1,208,976	-	-	-	-	1,208,976
Islamic financing and investing assets	7,189,650	6,299,255	11,565,259	25,695,570	11,513,388	62,263,122
Investment in Islamic sukuk	-	2,582	1,218,784	6,889,816	3,202,203	11,313,385
Other investments	-	-	864,988	1,060,962	-	1,925,950
Receivables and other assets	-	-	1,464,071	-	-	1,464,071
Total assets	15,441,810	10,738,209	15,113,102	33,646,348	14,715,591	89,655,060
Customers' deposits	24,590,701	21,606,229	7,894,737	11,553,315	142,442	65,787,424
Due to banks and other financial institutions	53,890	147,957	1,286,129	-	-	1,487,976
Sukuk financing instruments	-	30,188	90,564	2,777,289	-	2,898,041
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	843,424	177,180	1,924,237	422,103	-	3,366,944
Accrued zakat	-	142,807	-	-	-	142,807
Total liabilities	25,488,015	22,104,361	11,195,667	14,752,707	4,945,697	78,486,447

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.3 Liquidity risk and funding management (continued)

60.3.3 Non-derivative cash flows (continued)

As at 31 December 2008 (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	777,111	4,258,146	-	-	-	5,035,257
Balances and deposits with financial institutions	527,111	1,327,006	-	-	-	1,854,117
International murabahats, short term	1,646,070	-	-	-	-	1,646,070
Islamic financing and investing assets	5,532,680	7,362,966	12,365,587	25,489,601	12,352,994	63,103,828
Investment in Islamic sukuk	-	2,582	3,505,227	6,889,816	2,839,969	13,237,594
Other investments	-	-	864,988	1,072,547	-	1,937,535
Receivables and other assets	-	-	1,671,728	-	-	1,671,728
Total assets	8,482,972	12,950,700	18,407,530	33,451,964	15,192,963	88,486,129
Customers' deposits	28,446,620	23,655,893	14,778,012	545,228	7,544	67,433,297
Due to banks and other financial institutions	99,293	2,918,167	367,792	-	-	3,385,252
Sukuk financing instruments	-	34,434	103,303	3,167,963	-	3,305,700
Other liabilities	1,639,061	655,373	287,350	1,037,464	-	3,619,248
Accrued zakat	-	-	143,166	-	-	143,166
Total liabilities	30,184,974	27,263,867	15,679,623	4,750,655	7,544	77,886,663

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

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

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

- Islamic derivatives: comprise Islamic profit rate swaps.

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

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.3 Liquidity risk and funding management (continued)

60.3.4 Derivative cash flows

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
As at 31 December 2009						
Unilateral promise to buy/sell currencies	**-**	**3,807,118**	**1,332,980**	**3,288,135**	**-**	**8,428,233**
Islamic profit rate swaps	**-**	**-**	**-**	**12,217,140**	**392,601**	**12,609,741**
	-	**3,807,118**	**1,332,980**	**15,505,275**	**392,601**	**21,037,974**
As at 31 December 2008						
Unilateral promise to buy / sell currencies	-	3,795,463	6,174,629	1,285,550	-	11,255,642
Islamic profit rate swaps	-	-	-	11,206,987	352,805	11,559,792
	-	3,795,463	6,174,629	12,492,537	352,805	22,815,434

60.3.5 Off Balance Sheet items

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

	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
As at 31 December 2009						
Commitments on behalf of customers:						
- Letters of guarantee	**-**	**7,157,079**	**3,120,670**	**206,837**	**-**	**10,484,586**
- Letters of credit	**-**	**1,244,516**	**1,713,187**	**82,325**	**-**	**3,040,028**
- Acceptances	**-**	**354,993**	**124,922**	**-**	**-**	**479,915**
	-	**8,756,588**	**4,958,779**	**289,162**	**-**	**14,004,529**
Capital commitments	**-**	**72,840**	**123,346**	**220,071**	**-**	**416,257**
Total	**-**	**8,829,428**	**5,082,125**	**509,233**	**-**	**14,420,786**
As at 31 December 2008						
Commitments on behalf of customers:						
- Letters of guarantee	-	8,518,279	4,091,931	4,865,381	843	17,476,434
- Letters of credit	-	1,989,713	180,457	1,217,359	-	3,387,529
- Acceptances	-	529,058	74,023	-	-	603,081
	-	11,037,050	4,346,411	6,082,740	843	21,467,044
Capital commitments	-	262,052	167,423	162,500	-	591,975
Total	-	11,299,102	4,513,834	6,245,240	843	22,059,019

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.4 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.

60.4.1 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.

60.4.2 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 2009	Sensitivity of profit on financing and investing assets AED'000	Increase in basis points 2008	Sensitivity of profit on financing and investing assets AED'000
AED	**50**	**53,917**	50	31,779
USD	**50**	**9,564**	50	19,726

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.4 Market risk (continued)

60.4.3 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 2009

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	6,237,105	5,249,090	-	-	-	125,375	11,611,570
Balances and deposits with financial institutions	697,169	364,497	97,937	15,193	84,656	92,847	1,352,299
International murabahat, short term	-	1,102,096	102,863	-	-	-	1,204,959
Islamic financing and investing assets	44,034,275	4,772,403	89,846	-	21,760	1,006,657	49,924,941
Investment in Islamic sukuk	6,458,243	2,678,176	-	-	-	154,378	9,290,797
Other investments	528,751	963,226	185,864	8,594	180,101	59,414	1,925,950
Receivables and other assets	1,225,295	100,880	42	-	13,904	123,950	1,464,071
Total	59,180,838	15,230,368	476,552	23,787	300,421	1,562,621	76,774,587
Financial Liabilities:							
Customers' deposits	56,961,904	5,438,182	516,967	52,369	348,957	877,124	64,195,503
Due to banks and other financial institutions	651,408	790,844	22	383	943	5,451	1,449,051
Sukuk financing instruments	-	2,415,034	-	-	-	-	2,415,034
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,308,613	807,141	184,335	282	1,886	68,547	3,370,804
Total	63,674,468	9,451,201	701,324	53,034	351,786	951,122	75,182,935
Net on balance sheet financial position	(4,493,630)	5,779,167	(224,772)	(29,247)	(51,365)	611,499	1,591,652
Unilateral promise to buy/sell currencies	7,272,555	(7,293,647)	(3,757)	29,303	510	(4,964)	-
Cumulative currency position – long/(short)	2,778,925	(1,514,480)	(228,529)	56	(50,855)	606,535	1,591,652

Notes to the consolidated financial statements

for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.4 Market risk (continued)

60.4.3 Foreign exchange risk (continued)

At 31 December 2008 (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	5,946,686	310,724	-	2,449	3,577	65,230	6,328,666
Balance and deposits from financial institutions	1,321,767	379,617	20,769	10,180	30,546	78,099	1,840,978
International murabahat, short term	360,045	918,352	362,204	-	-	-	1,640,601
Islamic financing and investing assets	44,819,047	6,444,260	355,736	-	24,307	1,015,661	52,659,011
Investment in Islamic sukuk	5,695,108	5,391,177	-	-	-	139,991	11,226,276
Other investments	496,822	1,338,787	217,063	7,712	10,137	37,415	2,107,936
Receivables and other assets	1,117,523	274,253	15,576	-	7,774	256,602	1,671,728
Total assets	59,756,998	15,057,170	971,348	20,341	76,341	1,592,998	77,475,196
Financial Liabilities:							
Customers' deposits	60,363,807	3,240,694	1,643,986	33,787	361,603	684,800	66,328,677
Due to banks and other financial institutions	1,881,874	1,325,471	23	109,523	14,210	-	3,331,101
Sukuk financing instruments	-	2,754,750	-	-	-	-	2,754,750
Other liabilities	2,342,359	416,269	17,260	524	605,631	67,489	3,449,532
Total liabilites	64,588,040	7,737,184	1,661,269	143,834	981,444	752,289	75,864,060
Net on balance sheet financial position	(4,831,042)	7,319,986	(689,921)	(123,493)	(905,103)	840,709	1,611,136
Unilateral promise to buy/sell currencies	7,305,612	(8,872,923)	1,326,036	106,558	137,618	(2,901)	-
Cumulative currency position – long/(short)	2,474,570	(1,552,937)	636,115	(16,935)	(767,485)	837,808	1,611,136

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.4 Market risk (continued)

60.4.3 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 % 2009	Effect on profit before tax 2009 AED'000	Increase in currency rate in % 2008	Effect on profit before tax 2008 AED '000 (Restated)
USD	**+2**	**30,290**	+2	31,059
GBP	**+2**	**(1)**	+2	339
EURO	**+2**	**1,017**	+2	1,153

Currency	Decrease in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Decrease in currency rate in % 2008	Effect on profit before tax 2008 AED '000 (Restated)
USD	**-2**	**(30,290)**	-2	(31,059)
GBP	**-2**	**1**	-2	(339)
EURO	**-2**	**(1,017)**	-2	(1,153)

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.4 Market risk (continued)

60.4.4 Foreign investment

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

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

Currency	Increase in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Effect on equity 2009 AED'000	Increase in currency rate in % 2008	Effect on profit before tax 2008 AED'000 (Restated)	Effect on equity 2008 AED'000 (Restated)
Pak Rupees	**+5**	**615**	**31,703**	+5	(264)	12,175

Currency	Decrease in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Effect on Equity 2009 AED'000	Decrease in currency rate in % 2008	Effect on profit before tax 2008 AED'000 (Restated)	Effect on Equity 2008 AED'000 (Restated)
Pak Rupees	**-5**	**551**	**(3,684)**	-5	(240)	11,110

60.4.5 Equity price risk

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

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2009) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	% Change in Market indices	Effect on consolidated income statement 2009 AED'000	Effect on equity 2009 AED'000	Effect on consolidated income statement 2008 AED'000	Effect on equity 2008 AED'000
Dubai Financial Market	**±5%**	**-**	**15,142**	-	14,068
Abu Dhabi Stock Market	**±5%**	**-**	**2,530**	-	3,619
Dubai Intl Financial Exchange	**±5%**	**-**	**8,631**	-	7,616
Bahrain Stock Exchange	**±5%**	**2,642**	**-**	8,063	-
Kuwait Stock Exchange	**±5%**	**-**	**-**	1,408	-
Saudi Stock Exchange	**±5%**	**-**	**3,321**	210	-
Doha Stock Exchange	**±5%**	**-**	**1,230**	-	1,074
Others	**±5%**	**1,668**	**1,912**	125	901

60 Risk management (continued)

60.5 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 two years of operational loss data. The subject system is currently enhanced to automate KRI, RCSA.

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.

60.6 Capital management

60.6.1 Regulatory capital

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

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available for sale.

Capital management

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

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly 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, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at a minimum of 11% at all times increasing to 12% by 30 June 2010.

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

60 Risk management (continued)

60.6 Capital management (continued)

60.6.1 Regulatory capital (continued)

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

	Basel I		Basel II	
	2009 AED'000	2008 AED'000	2009 AED'000	2008 AED'000
Tier 1 Capital				
Share capital	**3,617,505**	3,445,400	**3,617,505**	3,445,400
Statutory reserves	**2,731,879**	2,731,879	**2,731,879**	2,731,879
Donated land reserve	**-**	-	**276,139**	276,139
General reserves	**2,350,000**	2,250,000	**2,350,000**	2,250,000
Other reserves	**-**	-	**-**	-
Proposed bonus shares	**-**	172,105	**-**	172,105
Retained earnings	**104,025**	29,478	**104,025**	29,478
Non-controlling interest	**4,910**	120	**-**	120
	8,808,319	8,628,982	**9,079,548**	8,905,121
Less:				
Goodwill and intangibles	**(34,516)**	-	**(34,516)**	-
Cumulative deferred exchange losses	**-**	-	**(74,321)**	-
Treasury shares	**(70,901)**	(3,307)	**(70,901)**	(3,307)
	8,702,902	8,625,675	**8,899,810**	8,901,814
Tier 2 Capital				
Hedging reserves	**22,770**	50,135	**22,770**	50,135
Collective impairment	**352,814**	-	**352,814**	
Medium term wakala finance	**3,752,543**	-	**3,752,543**	
Deductions for associates	**(525,300)**	(416,173)	**(525,300)**	(416,173)
	3,602,827	(366,038)	**3,602,827**	(366,038)
Total capital base	**12,305,729**	8,259,637	**12,502,637**	8,535,776
Risk weighted assets				
On balance sheet	**61,005,391**	60,489,646	**-**	-
Off balance sheet	**7,772,421**	8,426,079	**-**	-
Credit risk	**-**	-	**64,478,003**	72,222,748
Market risk	**-**	-	**2,026,564**	3,135,334
Operational risk	**-**	-	**5,051,584**	4,513,574
Total risk weighted assets	**68,777,812**	68,915,725	**71,556,151**	79,871,656
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**17.9%**	12.0%	**17.5%**	10.7%
Tier 1 capital to total risk weighted assets after deductions for associates	**12.7%**	12.5%	**12.1%**	11.1%

Notes to the consolidated financial statements
for the year ended 31 December 2009 (continued)

61 Prior year adjustments

The consolidated financial statements as of and for the year from 1 January 2008 to 31 December 2008 have been restated for the following:

61.1 During the year, IFRIC 15 "Agreement for the construction of real estate" was applicable on an associate of the Bank. The prior year financial statements of the associate have been restated on adoption of IFRIC 15. As a result the Bank has also restated its share of income from the associate in prior years as follows:

	As previously reported AED'000	Restatement AED'000	As restated AED'000
Consolidated balance sheet			
Investment in associates	**4,456,044**	**(274,496)**	**4,181,548**
Customer deposits – profit equalisation provision	**66,427,210**	**(98,533)**	**66,328,677**
Consolidated income statement			
Share of profit from associates	**401,034**	**(274,496)**	**126,538**
Depositors' share of profit	**1,876,205**	**(98,533)**	**1,777,672**
Consolidated statement of changes in equity			
Retained earnings as at 1 January 2009	**29,478**	**(175,963)**	**(146,485)**

Refer to notes 11, 24 and 39.

61.2 The consolidated financial statements as of and for the year from 1 January 2007 to 31 December 2007 have been restated for the following in 2008:

61.2.1 Recognition of profit which was amortised on a straight line method over the life of the assets instead of the effective yield method. The adjustments have been done by restating 2007 results for impact for the year ended 31 December 2007 and in retained earnings in consolidated statement of changes in equity for years prior to 2007.

61.2.2 Recognition of an investment fund in 2007 as 100% owned subsidiary consolidated on line by line basis. The adjustments have been done by restating 2007 results for impact for 2007.

The following table summarises the significant impacts of above restatements:

	As previously reported AED'000	Restatement AED'000	As restated AED'000
Recognition of income from investing and financing assets			
Consolidated balance sheet			
Investing and Financing asset	40,376,082	158,766	40,534,848
Customer deposits – profit equalisation provision	(411,319)	(158,766)	(570,085)
Consolidated income statement			
Income from Islamic financing and investing Assets	2,685,939	39,060	2,724,999
Depositors' share of profit	(2,356,014)	(39,060)	(2,395,074)
Consolidated statement of changes in equity			
Retained earnings as at 1 January 2007	43,197	-	43,197

61 Prior year adjustments (continued)

Adjustment related to prior years to 2007 amounting to AED 119,706 has been classified to customer deposits profit equalisation provision account.

	As previously reported AED '000	Restatement AED '000	As restated AED '000
Consolidation of an investment fund			
Consolidated balance sheet			
Investment properties	1,499,303	535,595	2,034,898
Other liabilities	(2,931,200)	(462,386)	(3,393,586)
Consolidated income statement			
Income from investment properties	187,639	44,185	231,824
Depreciation of investment properties	(10,500)	(17,529)	(28,029)

62 Comparative information

Certain comparative figures have been reclassified to conform to the current year presentation.

63 Approval Of The Consolidated Financial Statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 11 February 2010.