Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2010

Dubai Islamic Bank P.J.S.C.

Report and consolidated financial statements for the year ended 31 December 2010

Deloitte.

Deloitte & Touche (M.E.)
Bin Ghanim Tower
Hamdan Street
P.O.Box 990, Abu Dhabi
United Arab Emirates

Tel: +971 (2) 676 0606
Fax: +971 (2) 676 0644
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Dubai Islamic Bank P.J.S.C.
Dubai
United Arab Emirates

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Dubai Islamic Bank P.J.S.C and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects, the financial position of Dubai Islamic Bank P.J.S.C. and its subsidiaries (the "Bank") as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended), or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

The accompanying consolidated financial statements have been prepared for submission to the United Arab Emirates Central Bank and are yet to be approved by the Central Bank. These consolidated financial statements should not be published until such approval is obtained.

Deloitte & Touche (M.E.)

Saba Y. Sindaha
Registration Number 410
8 March 2011

Consolidated statement of financial position as at 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Cash and balances with Central Banks	6	11,247,225	11,611,570
Due from banks and financial institutions	7	2,356,631	2,557,258
Islamic financing and investing assets, net	8	57,171,067	49,924,941
Investments in Islamic sukuk	9	8,200,476	9,290,797
Other investments	10	1,772,946	1,925,950
Investments in associates	11	3,430,274	4,295,168
Properties under construction	12	524,165	388,648
Properties held for sale	13	544,959	157,269
Investment properties	14	1,922,911	1,996,288
Receivables and other assets	15	2,296,873	1,464,071
Property, plant and equipment	16	653,086	657,795
Goodwill	17	17,258	34,516
Total assets		90,137,771	84,304,271
LIABILITIES			
Customers' deposits	21	63,447,070	64,195,503
Due to banks and financial institutions	22	4,409,427	1,449,051
Sukuk financing instruments	23	4,176,015	2,415,034
Medium term wakala finance	24	3,752,543	3,752,543
Payables and other liabilities	25	3,679,923	3,370,804
Accrued zakat	28	146,336	140,536
Total liabilities		79,611,314	75,323,471
EQUITY			
Share capital	29	3,797,054	3,617,505
Treasury shares	30	-	(70,901)
Statutory reserve	31	2,731,879	2,731,879
Donated land reserve	31	276,139	276,139
General reserve	31	2,350,000	2,350,000
Exchange translation reserve	31	(91,541)	(77,841)
Cumulative changes in fair value	32	(243,166)	(723,713)
Hedging reserve	34	10,656	50,600
Retained earnings		748,428	822,222
Equity attributable to equity holders of the Parent		9,579,449	8,975,890
Non-controlling interest	36	947,008	4,910
Total equity		10,526,457	8,980,800
Total liabilities and equity		90,137,771	84,304,271
Contingent liabilities and commitments	37	24,266,184	25,638,030

H. E. Mohammad A. Al Shaibani
Chairman

Sheikh Khalid Bin Zayed Al Nehyan
Deputy Chairman

Abdulla Ali Al Hamli
Chief Executive Officer

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

Consolidated income statement
for the year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
INCOME			
Income from Islamic financing and investing assets	39	**3,221,695**	3,322,857
Income from Islamic sukuk		**376,260**	703,539
Income from International murabahats and wakala, short term	40	**36,313**	51,478
Gain / (loss) from other investments	41	**136,163**	(18,935)
Commissions, fees and foreign exchange income	42	**687,030**	752,169
Income from investment properties	43	**90,166**	78,300
Income from sale of properties held for sale	44	**14,498**	997
Gain on buy back of sukuk financing instrument	23	**6,418**	38,712
Other income	45	**140,006**	186,453
Total income		**4,708,549**	5,115,570
EXPENSES			
Personnel expenses	46	**(817,819)**	(813,202)
General and administrative expenses	47	**(542,943)**	(524,760)
Depreciation of investment properties	14	**(22,669)**	(18,722)
Impairment loss on financial assets, net	48	**(801,055)**	(809,344)
Impairment loss on non-financial assets, net	49	**(62,824)**	(8,565)
Total expenses		**(2,247,310)**	(2,174,593)
Profit before depositors' share and tax		**2,461,239**	2,940,977
Depositors' share of profits	50	**(1,435,631)**	(1,739,197)
Operating profit for the year		**1,025,608**	1,201,780
Share of (loss)/profit from associates	11	**(846,521)**	17,345
Gain on acquiring controlling interest	20	**637,038**	-
Profit for the year before tax		**816,125**	1,219,125
Income tax expense	26	**(3,492)**	(6,844)
Profit for the year		**812,633**	1,212,281
Attributable to:			
Equity holders of the parent		**806,523**	1,207,491
Non-controlling interest		**6,110**	4,790
Profit for the year		**812,633**	1,212,281
Basic and diluted earning per share attributable to the equity holders of the parent (AED)	51	**AED 0.21**	AED 0.32

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

Consolidated statement of comprehensive income for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Profit for the year	**812,633**	1,212,281
Other comprehensive income		
Net gain on available for sale investments during the year	**606,140**	165,310
Reclassification of realised gain on disposal of available for sale of investments to profit or loss	**(125,593)**	(309)
Currency translation differences of foreign operations	**(13,700)**	(18,161)
Net loss on cash flow hedge	**-**	(15,592)
Reclassification of cash flow hedging reserve to profit or loss	**(39,944)**	(45,219)
Directors' remuneration	**(4,800)**	(4,800)
Other comprehensive income for the year	**422,103**	81,229
Total comprehensive income for the year	**1,234,736**	1,293,510
Attributable to:		
Equity holders of the parent	**1,228,626**	1,288,720
Non-controlling interest	**6,110**	4,790
	1,234,736	1,293,510

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

Consolidated statement of changes in equity for the year ended 31 December 2010 (continued)

	Share capital	Treasury shares	Total reserves	Cumulative changes in fair value	Hedging reserve	Retained earnings	Attributable to equity holders of the parent	Non-controlling interest	Total Equity
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2009 - restated	3,445,400	(3,307)	5,198,338	(888,714)	111,411	886,143	8,749,271	120	8,749,391
Profit for the year	-	-	-	-	-	1,207,491	1,207,491	4,790	1,212,281
Other comprehensive income for the year	-	-	(18,161)	165,001	(60,811)	(4,800)	81,229	-	81,229
Total comprehensive income for the year	-	-	(18,161)	165,001	(60,811)	1,202,691	1,288,720	4,790	1,293,510
Issuance of bonus shares	172,105	-	-	-	-	(172,105)	-	-	-
Dividends paid	-	-	-	-	-	(860,523)	(860,523)	-	(860,523)
Share based payments vested	-	-	-	-	-	5,444	5,444	-	5,444
Transfer to general reserve	-	-	100,000	-	-	(100,000)	-	-	-
Shares acquired	-	(67,594)	-	-	-	-	(67,594)	-	(67,594)
Accrued zakat (note 28)	-	-	-	-	-	(139,428)	(139,428)	-	(139,428)
Balance at 1 January 2010	**3,617,505**	**(70,901)**	**5,280,177**	**(723,713)**	**50,600**	**822,222**	**8,975,890**	**4,910**	**8,980,800**
Profit for the year	-	-	-	-	-	806,523	806,523	6,110	812,633
Other comprehensive income for the year	-	-	(13,700)	480,547	(39,944)	(4,800)	422,103	-	422,103
Total comprehensive income for the year	-	-	(13,700)	480,547	(39,944)	801,723	1,228,626	6,110	1,234,736
Additional non-controlling interest arising on acquisition of a subsidiary	-	-	-	-	-	-	-	940,300	940,300
Issuance of bonus shares	179,549	-	-	-	-	(179,549)	-	-	-
Dividends paid	-	-	-	-	-	(538,648)	(538,648)	(4,312)	(542,960)
Treasury shares disposed	-	70,901	-	-	-	(11,473)	59,428	-	59,428
Share based payments vested	-	-	-	-	-	479	479	-	479
Accrued zakat (note 28)	-	-	-	-	-	(146,326)	(146,326)	-	(146,326)
Balance at 31 December 2010	**3,797,054**	**-**	**5,266,477**	**(243,166)**	**10,656**	**748,428**	**9,579,449**	**947,008**	**10,526,457**

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

Consolidated statement of cash flows
for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Cash flows from operating activities		
Profit for the year before tax	**816,125**	1,219,125
Adjustments for:		
Gain on acquiring controlling interest	**(637,038)**	-
Revaluation of investments at fair value through profit or loss	**13,182**	53,562
Dividend income	**(24,303)**	(39,646)
Gain on sale of investment properties	**(18,001)**	(2,691)
Cost of shared based payments	**479**	5,444
Net impairment loss on financial assets	**801,055**	809,344
Net impairment loss on non-financial assets	**62,824**	8,565
Share of loss / (profit) from associates	**846,521**	(17,345)
Gain on derivative assets	**-**	(102,164)
Depreciation of investment properties	**22,669**	18,722
Depreciation of property, plant and equipment	**122,855**	116,008
Loss on disposal of associates	**-**	4,703
Gain on disposal of property, plant and equipment	**(20)**	-
Gain on disposal of available for sale investments	**(125,593)**	-
Loss on disposal of investments at fair value through profit or loss	**1,941**	6,841
Gain on buy back of sukuk financial instruments	**(6,418)**	(40,696)
Amortisation of hedging reserve	**(39,943)**	(45,219)
Gain on disposal of properties held for sale	**(14,498)**	(997)
Amortisation of fair value of Islamic Financing and investing activities	**5,473**	-
Write off of property, plant and equipment	**4,099**	27,950
Gain on shares acquired	**-**	(67,594)
Operating cash flow before changes in operating assets and liabilities	**1,831,409**	1,953,912
Decrease in Islamic financing and investing assets	**1,671,570**	2,017,380
(Increase) /decrease in receivables and other assets	**(733,760)**	311,513
(Decrease)/increase in customers' deposits	**(2,227,113)**	1,619,369
Decrease in due to banks and financial institutions	**(923,002)**	(1,882,050)
Decrease in payables and other liabilities	**(4,488)**	(83,528)
Accrued zakat paid	**(140,536)**	(141,825)
Cash (used in)/ generated from operating activities	**(525,920)**	3,794,771
Tax paid	**(1,414)**	(4,436)
Net cash (used in)/ generated from operating activities	**(527,334)**	3,790,335

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

Consolidated statement of cash flows
for the year ended 31 December 2010 (continued)

	2010 AED'000	2009 AED'000
Cash flows from investing activities		
Proceeds from disposal of investments in Islamic sukuk	**864,585**	1,894,378
Proceeds from disposal of investments at fair value through profit or loss	**4,511**	133,163
Proceeds from disposal of available for sale investments	**16,166**	117,604
Purchase of available for sale investments	**(42,343)**	-
Purchase of investments at fair value through profit or loss	**-**	(280)
Proceeds from disposal of investment properties	**22,204**	5,789
Additions to properties under construction	**(135,517)**	(130,818)
Additions to properties held for sale	**(29,747)**	(701)
Additions to investment properties	**(8,757)**	(15,281)
Net cash outflow on acquisition of controlling interest	**(81,851)**	(38,567)
Dividend income	**24,302**	39,646
Payments for investments in associates	**(2,655)**	(107,183)
Income from investment in associates	**8,791**	-
Purchase of property, plant and equipment	**(93,303)**	(147,292)
Proceeds from disposal of property, plant and equipment	**1,402**	12,160
Proceeds from disposal of properties held for sale	**31,067**	13,461
Movement in deposits and International murabahats with original maturities above three months	**(3,031,239)**	(88,836)
Exchange differences arising from translation of foreign operations	**(23,562)**	(48,288)
Net cash (used in) / generated from investing activities	**(2,475,946)**	1,638,955
Cash flow from financing activities		
Dividends paid	**(538,648)**	(860,523)
Buy back of sukuk financing instruments	**(51,542)**	(299,020)
Non-controlling interests	**(2,841)**	-
Net cash used in financing activities	**(593,031)**	(1,159,543)
(Decrease)/increase in cash and cash equivalents	**(3,596,311)**	4,269,747
Cash and cash equivalents at the beginning of the year	**14,079,992**	9,810,245
Cash and cash equivalents at the end of the year (Note 52)	**10,483,681**	14,079,992

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

Notes to the consolidated financial statements for the year ended 31 December 2010

1 General information

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

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

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

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

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

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

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported in these consolidated financial statements. Details of other new and revised IFRSs adopted in these consolidated financial statements that have had no material effect on the financial statements are set out in section 2.2.

- IFRS 3 (revised in 2008) *Business Combination* — IFRS 3(2008) has been applied in the current year prospectively to business combinations for which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its adoption has affected the accounting for business combinations in the current year.

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

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

- Amendments to IFRS 1 *First-time Adoption of IFRS* – Additional Exemption for first-time adopters. — The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

- Amendments to IFRS 2 *Share-based payment – Bank Cash-settled Share-based Payment Transactions* — The amendments clarify the scope of IFRS 2, as well as the accounting for the Bank cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2008) — The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Bank is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Bank will retain a non-controlling interest in the subsidiary after the sale.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

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

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

• Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements.
• Amendments to IAS 1 *Presentation of financial statements* (as part of improvements to IFRSs issued in 2009)	The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current.
• Amendments to IAS 7 *Statement of Cash Flows* (as part of *Improvements to IFRSs* issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the balance sheet can be classified as investing activities in the statement of cash flows.
• Amendment to IAS 39 *Financial Instruments : Recognition and Measurement* – Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives*	Relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category
• IFRIC 17 *Distributions of Non-cash Assets to Owners*	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
• IFRIC 18 *Transfers of Assets from Customers*	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue*.
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	The Interpretation removes the restriction in terms of which entity in the group to hold the hedging instrument, subsequent to the amendment per IFRIC 16, any entity in the group can hold the hedging instrument that qualifies as net investment hedge in a foreign operation.

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

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

• Improvements to IFRSs (2009)	Except for the amendments to IFRS 3 described earlier in section 2.1, the application of improvements to IFRS issued in 2009 has not had any material effect on amounts reported in the consolidated financial statements.

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

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

New and revised IFRSs	**Effective for annual periods beginning on or after**
• Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*	1 July 2010
• Amendments to IFRS 7 *Financial Instruments: Disclosures*, relating to Disclosures on Transfers of Financial Assets	1 July 2011
• IFRS 9 *Financial Instruments* (as amended in 2010)	1 January 2013
• IAS 24 *Related Party Disclosures* (revised in 2009)	1 January 2011
• Amendments to IAS 32 *Financial Instruments: Presentation*, relating to Classification of Rights Issues	1 February 2010
• Amendments to IFRIC 14 relating to *Prepayments of a Minimum Funding Requirement*	1 January 2011
• IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• *Improvements to IFRSs* issued in 2010 covering amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13	1 January 2011, except IFRS 3 and IAS 27 which are effective 1 July 2010

Management anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

3 Definitions

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

3.1 Murabahat

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

3.2 Salam finance

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

3.3 Istisna'a

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

3.4 Ijarah

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

3.5 Musharaka

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

3.6 Mudaraba

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

3.7 Wakala

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

3.8 Sukuk

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

4 Significant accounting policies

4.1 Statement of compliance

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

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

4.2 Basis of preparation

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

The significant accounting policies are set down below.

4.3 Basis of consolidation

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

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

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

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

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

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

4 Significant accounting policies (continued)

4.3 Basis of consolidation (continued)

When the Bank loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

4.4 Due from banks and financial institutions

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

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

4.5 Islamic financing and investing assets

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

Provision for impairment is made for Islamic financing and investing assets when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Islamic financing and investing assets are written off only when all possible courses of action to achieve recovery have proved unsuccessful. Losses expected from future events are not recognised.

Islamic financing and investing assets (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised Islamic financing and investing assets, when the proceeds from realizing the security have been received.

4.6 Islamic financing and investing assets impairment

4.6.1 Individually assessed Islamic financing and investing assets

Individually assessed Islamic financing and investing assets mainly represent corporate and commercial assets which are assessed individually in order to determine whether there exists any objective evidence that an Islamic financing and investing asset is impaired. Islamic financing and investing assets are classified as impaired as soon as there is doubt about the customer's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the customer's ability to meet payment obligations generally arise when:

a) Principal and profit are not serviced as per contractual terms; and
b) When there is significant deterioration in the customer's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the Islamic financing and investing assets.

4 Significant accounting policies (continued)

4.6 Islamic financing and investing assets impairment (continued)

4.6.1 Individually assessed Islamic financing and investing assets (continued)

Impaired Islamic financing and investing assets are measured on the basis of the present value of expected future cash flows discounted at the Islamic financing and investing asset's original effective profit rate or, as a practical expedient, at the Islamic financing and investing assets' observable market price or fair value of the collaterals if the Islamic financing and investing assets is collateral dependent. Impairment loss is calculated as the difference between the Islamic financing and investing assets' carrying value and its present impaired value.

4.6.2 Retail Islamic financing and investing assets with common features and which are not individually significant

Collective impairment is made to cover impairment against specific group of assets where there is a measurable decrease in estimated future cash flows by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

4.6.3 Incurred but not yet identified

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

4.6.4 Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the investing and financing asset impairment provision account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

4.6.5 Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing exposures rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. Once the terms have been renegotiated, the financing exposure is no longer considered past due. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur. The facility continue to be subject to an individual or collective impairment assessment, calculated using the facility's original effective profit rate depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the Islamic financing and investing assets to be moved to performing category.

4.7 Investment in Islamic Sukuk

4.7.1 Held to maturity

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

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

4.7.2 Available for sale investments

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

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

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

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

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

4 Significant accounting policies (continued)

4.8 Other investments

4.8.1 Investments carried at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

4.8.2 Available for sale investments

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

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

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

4.8.3 Reclassification of other investments

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

4.8.4 Derecognition of other investments

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

4 Significant accounting policies (continued)

4.9 Fair values

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

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

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

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

4.10 Investments in associates

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

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

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

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

4.11 Fund management

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

4 Significant accounting policies (continued)

4.12 Properties under construction

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

4.13 Properties held for sale

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

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

4.14 Cost of sale of property

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

4.15 Investment properties

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

Transfers are made to investment properties when, and only when there is change in use evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is change in used evidenced by commencement of owner-occupation or commencement of development with a view to sale.

4 Significant accounting policies (continued)

4.16 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the consolidated income statement in the period in which they are incurred.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

• Buildings	15-25 years
• Plant and machinery	15-20 years
• Furniture and office equipment	3-5 years
• Information technology	3-5 years
• Motor vehicles	3 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated financial statements.

4.17 Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

4 Significant accounting policies (continued)

4.18 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Bank's policies.

4.19 Investments in joint ventures

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

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

4.20 Business combination

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal Banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

4 Significant accounting policies (continued)

4.20 Business combination

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

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

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

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

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

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

4 Significant accounting policies (continued)

4.21 Goodwill

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

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

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

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

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

4.23 Sukuk financing instruments

4.23.1 Non-convertible sukuk

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

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

4.23.2 Convertible sukuk

Convertible Sukuk that can be settled at the option of the issuer are recorded as compound financial instruments. The equity component of the convertible sukuk is calculated as the excess of the issue proceeds over the present value of the future profit and principal payments, discounted at the market rate of profit applicable to similar liabilities that do not have a conversion option.

4 Significant accounting policies (continued)

4.24 Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective profit method, with depositors' share of profit recognised on an effective yield basis.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating depositors' share of profit over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

4.25 Derecognition of financial assets and financial liabilities

4.25.1 Financial assets

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

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

4.25.2 Financial liabilities

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

4.26 Employees' end of service benefits

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

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

4 Significant accounting policies (continued)

4.27 Taxation

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

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

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

4.28 Zakat

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

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

4.29 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa and Sharia'a Supervisory Board.

4.30 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4 Significant accounting policies (continued)

4.30 Provisions and contingent liabilities (continued)

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

4.31 Share capital – equity instruments

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity instrument if, and only if, below both conditions are met:

(a) The instrument includes no contractual obligation:
   (i) to deliver cash or another financial asset to another entity; or
   (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:
   (i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
   (ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

4.32 Share-based payments

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

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

4 Significant accounting policies (continued)

4.33 Financial guarantees

Financial guarantees are undertaking/commitment that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

4.34 Acceptances

Acceptances have been considered within the scope of IAS 39 Financial Instruments: Recognition and Measurement and are recognised as financial liability in the consolidated balance sheet with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.35 Derivative financial instruments

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

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in consolidated income statement under net gain on dealing in derivatives.

4 Significant accounting policies (continued)

4.35 Derivative financial instruments (continued)

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

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

4.35.1 Fair value hedges

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

4.35.2 Cash flow hedges

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

4 Significant accounting policies (continued)

4.35 Derivative financial instruments (continued)

4.35.3 Derivatives that do not qualify for hedge accounting

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

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

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

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

4.37 Revenue recognition

4.37.1 Income from investing and financing assets

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

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

4.37.2 Murabahat

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

4.37.3 Salam finance

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

4.37.4 Istisna'a

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

4 Significant accounting policies (continued)

4.37 Revenue recognition (continued)

4.37.5 Ijarah

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

4.37.6 Musharaka

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

4.36.7 Mudaraba

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

4.37.8 Sukuk

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

4.37.9 Fee and commission income

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

4.37.10 Dividends

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

4.37.11 Sale of property

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

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

4.38 Forfeited income

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

4.39 Fiduciary activities

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

4 Significant accounting policies (continued)

4.40 Operating lease

4.40.1 The Bank as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

4.40.2 The Bank as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

4.41 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated balance sheet.

4.42 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the consolidated income statement.

4 Significant accounting policies (continued)

4.42 Foreign currencies (continued)

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the consolidated balance sheet date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange translation reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

4.43 Trade and settlement date accounting

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

4.44 Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

4 Significant accounting policies (continued)

4.45 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment income, segment expenses and segment performance include transfers between business segments and between geographical segments. Refer to note 55 on Business Segment reporting.

5 Critical accounting judgements and key sources of estimation of uncertainty

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

5.1 Impairment losses on Islamic financing and investing assets

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

5.1.1 Individually assessed Islamic financing and investing assets

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

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

- The amount expected to be realised on disposals of collaterals;
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation; and
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired Islamic financing and investing assets continue to be classified as impaired unless they are brought fully current and the collection of scheduled profit and principal is considered probable.

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

5.1.2 Collectively assessed Islamic financing and investing assets (continued)

Collective assessment of allowance for impairment is made for overdue retail Islamic financing and investing assets with common features which are not individually significant and performing Islamic financing and investing assets which are not found to be individually impaired.

This collective allowance is based on any deterioration in the internal rating of the asset or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of Islamic financing and investing assets which may be impaired but not identified as of the consolidated balance sheet date.

5.2 Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular that the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through income statement depends on how management monitors the performance of these investments. When they are not classified as trading but have readily available, reliable fair values and the changes in fair values are reported as part of consolidated income statement in the management accounts, these are classified as fair value through income statement.

All other investments are classified as available for sale.

5.3 Impairment of available for sale investments

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

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

5.4 Impairment of associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

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

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or
ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5.5 Islamic derivative financial instruments

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

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

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

6 Cash and balances with Central Banks

	2010 AED'000	2009 AED'000
Cash in hand	**1,374,754**	1,491,173
Balances with Central Banks:		
- Current accounts	**2,664,847**	6,376,863
- Reserve requirements	**3,905,838**	3,743,534
- International murabahat with Central Bank – short term	**3,301,786**	-
	11,247,225	11,611,570

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

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

	2010 AED'000	2009 AED'000
Within the U.A.E.	**11,114,569**	11,486,195
Outside the U.A.E.	**132,656**	125,375
	11,247,225	11,611,570

7 Due from banks and financial institutions

	2010 AED'000	2009 AED'000
Current accounts	**336,541**	666,321
Investment deposits	**751,880**	685,978
International murabahat - short term	**1,268,110**	1,204,959
	2,356,531	2,557,258

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

	2010 AED'000	2009 AED'000
Within the U.A.E.	**2,019,539**	800,040
Outside the U.A.E.	**336,992**	1,757,218
	2,356,531	2,557,258

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

8 Islamic financing and investing assets, net

	2010 AED'000	2009 AED'000
Commodities murabahat	**5,495,201**	6,553,773
International murabahat - long term	**1,661,426**	1,636,047
Vehicles murabahat	**6,546,265**	6,589,053
Real estate murabahat	**5,187,596**	5,391,693
Total murabahat	**18,890,488**	20,170,566
Istisna'a	**7,289,783**	8,362,108
Home finance ijara	**12,225,198**	3,006,098
Other ijaras	**10,032,307**	8,577,749
Salam	**1,399,132**	-
Islamic credit cards	**431,953**	392,014
	50,268,861	40,508,535
Less: Deferred income	**(3,834,249)**	(4,414,648)
Contractors and consultants' istisna'a contracts	**(524,002)**	(1,147,768)
Provisions for impairment	**(2,824,393)**	(1,845,257)
	43,086,217	33,100,862
Investing Assets		
Musharakat	**9,717,533**	10,524,280
Mudaraba	**3,709,791**	5,456,053
Wakalat	**790,207**	946,791
	14,217,531	16,927,124
Less: Provision for impairment	**(132,681)**	(103,045)
	14,084,850	16,824,079
Net Islamic financing and investing assets	**57,171,067**	49,924,941

8 Islamic financing and investing assets, net (continued)

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

	2010			2009		
	U.A.E. AED'000	International AED'000	Total AED'000	U.A.E. AED'000	International AED'000	Total AED'000
Economic sector						
Financial institutions	3,014,911	413,706	3,428,617	4,125,258	517,834	4,643,092
Real estate	17,478,834	434	17,479,268	17,835,629	110,263	17,945,892
Trade	2,755,050	65,971	2,821,021	3,456,548	102,377	3,558,925
Government	4,843,577	17,156	4,860,733	4,182,292	-	4,182,292
Manufacturing and services	8,242,261	1,141,821	9,384,082	9,096,360	1,147,366	10,243,726
Consumer home finance	12,578,399	-	12,578,399	3,022,692	-	3,022,692
Consumer financing	9,090,735	485,286	9,576,021	7,804,476	472,148	8,276,624
Total	58,003,767	2,124,374	60,128,141	49,523,255	2,349,988	51,873,243
Less: Provision for impairment			(2,957,074)			(1,948,302)
Total			57,171,067			49,924,941

Provisions for impairment

Movements in the provision for impairment are as follows:

	Financing AED'000	Investing AED'000	Total AED'000
2010			
Balance, beginning of the year	1,845,257	103,045	1,948,302
Acquisition of controlling interest	364,073	-	364,073
Charge for the year	834,493	94,470	928,963
Release to the profit or loss	(217,206)	(58,321)	(275,527)
Write-offs during the year	(2,135)	(6,260)	(8,395)
Others	(89)	(253)	(342)
Balance, end of the year	2,824,393	132,681	2,957,074
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed provision for impairment	4,667,226	344,955	5,012,222
2009			
Balance, beginning of the year	1,186,864	58,337	1,245,201
Charge for the year	784,803	72,452	857,255
Release to the profit or loss	(113,519)	(27,046)	(140,565)
Write-offs during the year	(12,861)	-	(12,861)
Others	(30)	(698)	(728)
Balance, end of the year	1,845,257	103,045	1,948,302
Gross amount of financing and investing assets, individually determined to be impaired, before deducting any individually assessed provision for impairment	2,922,752	184,253	3,107,005

8 Islamic financing and investing assets, net (continued)

Collaterals

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

	2010 AED'000	2009 AED'000
Corporate and financial guarantees	**53,863,873**	49,074,130
Property and Mortgages	**32,268,139**	29,937,517
Deposits	**801,921**	1,259,473
Vehicles and machineries	**463,720**	163,481

The fair value of collaterals that the Bank holds relating to facilities individually determined to be impaired at 31 December 2010 amounts to AED 3.90 billion (2009: AED 2.75 billion).

During the year, the Bank took possession of various underlying assets, primarily vehicles. The Bank has sold repossessed assets amounting to AED 8.80 million (2009: AED 6.52 million), which has been adjusted against the outstanding receivables.

9 Investments in Islamic Sukuk

Investments in Islamic sukuk by geographical area are as follows:

	2010 AED'000	2009 AED'000
Held to maturity – at amortised cost		
Within U.A.E.	**6,567,730**	7,736,096
Other G.C.C. Countries	**136,705**	346,161
Rest of the world	**300,890**	238,857
	7,005,325	8,321,114
Available for sale		
Within U.A.E.	**1,195,151**	969,683
	1,195,151	969,683
Total	**8,200,476**	9,290,797

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

10 Other investments

	2010 AED'000	2009 AED'000
Investments carried at fair value through profit or loss	108,406	128,561
Available for sale investments	1,664,540	1,797,389
	1,772,946	1,925,950

	31 December 2010			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Equity instruments	1,013	78,185	29,208	108,406
Available for sale investments				
Quoted:				
Equity instruments	443,654	122,526	35,168	601,348
Unquoted:				
Equity instruments	223,148	124,430	191,624	539,202
Investment funds	157,855	9,182	356,953	523,990
	381,003	133,612	548,577	1,063,192
Available for sale investments	824,657	256,138	583,745	1,664,540
Total	825,670	334,323	612,953	1,772,946

10 Other investments (continued)

	31 December 2009			
	U.A.E. AED'000	Other G.C.C. Countries AED'000	Rest of World AED'000	Total AED'000
Investments carried at fair value through profit or loss				
Equity instruments	1,212	108,192	19,157	128,561
Available for sale investments				
Quoted:				
Equity instruments *	603,650	95,909	40,255	739,814
Unquoted:				
Equity instruments	212,863	120,527	192,627	526,017
Investment funds	142,968	-	388,590	531,558
	355,831	120,527	581,217	1,057,575
Available for sale investments	959,481	216,436	621,472	1,797,389
Total	960,693	324,628	640,629	1,925,950

Industry distribution of other investments is as follows:

	2010 AED'000	2009 AED'000
Banks and other financial institutions	**889,542**	853,107
Real estate	**338,070**	507,213
Manufacturing and others	**545,334**	565,630
	1,772,946	1,925,950

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

The available for sale investments were assessed for indicators of impairment at the end of reporting period. The available for sale investments, quoted and unquoted investments identified where reporting fair value of investment were below the cost for significant or prolonged period, accordingly investments have been impaired. The impaired loss amounting to AED 136.3 million (2009: AED 92.7 million) recognised in the consolidated income statements (refer note 48).

During 2008, the held for trading investments were reclassified to available for sale investments. The reclassification was made in accordance with the amendments to IAS 39 (Financial Instruments: Recognisition and Measurement) issued on 12 October 2008 with respect to reclassification of financial assets. The fair value at the date of reclassification of investments was AED 155.6 million. As at 31 December 2010, reclassified investments amounted to AED 39.3 million (2009: AED 56.9 million). During 2010, the reclassified investments amounting to AED 8.7 million (2009: AED 8.5 million) were disposed.

10 Other investments (continued)

* The available for sale investments as at 31 December 2009 include an investment of AED 205,652,700 which was suspended from trading on the local stock market in November 2008. The investment is valued at the last traded price before its suspension on the local stock market.

11 Investments in associates

11.1 List of associates

Details of the Bank's associates at the end of the reporting period are as follows:

	Associates	Principal activity	Country of incorporation	Percentage of equity 2010	2009
1.	Bank of Khartoum	Banking	Sudan	28.4%	28.4 %
2.	Jordan Dubai Islamic Bank	Banking	Jordan	20.8%	20.8%
3.	Bosnia International Bank	Banking	Bosnia	27.3%	27.3%
4.	Faisal Islamic Bank of Kibris	Banking	TRNC	31.0%	31.0%
5.	Saba Islamic Bank	Banking	Yemen	18.5%	18.5%
6.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.	43.0%	43.0%
7.	Etisalat International Pakistan Ltd.	Investments	U.A.E.	10.0%	10.0%
8.	BBI Leasing and Real Estate L.L.C.	Real estate development	Bosnia	13.6%	13.6%
9.	Liquidity Management Center (B.S.C.)	Brokers	Bahrain	25.0%	25.0%
10.	Ejar Cranes & Equipment L.L.C.	Equipment leasing	U.A.E.	16.6%	16.6%
11.	MESC Investment Company	Investments	Jordan	40.0%	40.0%
12.	Omega Engineering L.L.C.	Mechanical, electrical & plumbing	U.A.E.	23.7%	23.7%
13.	Beirut Bay SAL	Property Development	Lebanon	43.0%	43.0%
14.	Deyaar (UK) Ltd.	Representative Office of Deyaar	UK	43.0%	43.0%
15.	Deyaar Cayman Ltd.	Investment holding Company	Cayman Islands	43.0%	43.0%

Although the Bank's interest in the equity of the entities listed as 5, 7, 8 and 10 is less than 20%, the Bank exercises significant influence over these entities. These investments have, accordingly, been accounted for as "investments in associates".

11.2 Investments in associates and share of profits

	2010 AED'000	2009 AED'000
Investments in associates	**4,046,553**	4,056,455
Share of (loss)/profit	**(486,051)**	356,704
Less: provision for impairment	**(130,228)**	(117,991)
	3,430,274	4,295,168

11.3 Provision for impairment of investments in associates

	2010 AED'000	2009 AED'000
Balance, beginning of the year	**117,991**	109,426
Charge for the year (note 49)	**12,237**	8,565
Balance, end of the year	**130,228**	117,991

11 Investments in associates (continued)

11.4 Carrying value of investment in associates

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

	2010 AED'000	2009 AED'000
Share of associates' balance sheets:		
Assets	**7,808,043**	6,847,034
Liabilities	**(4,247,540)**	(2,433,875)
Net assets	**3,560,503**	4,413,159
Less: Provision for impairment	**(130,229)**	(117,991)
	3,430,274	4,295,168
Share of associates' revenues and results:		
Revenues	**334,026**	1,014,371
Results	**(846,521)**	17,345

11.5 Investment in associates by geography

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

	2010 AED'000	2009 AED'000
Within U.A.E.	**2,879,233**	3,769,867
Other G.C.C. Countries	**49,835**	56,782
Rest of the world	**501,206**	468,519
	3,430,274	4,295,168

As at 31 December 2010, the fair value of the Bank's interest in listed associates on the local stock exchanges, was AED 822 million (2009: AED 1,542 million) and the carrying amount of the Bank's interest in those associates was AED 2,243 million (2009: AED 2,990 million).

11 Investments in associates (continued)

11.6 Disposal of interest in associates

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

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

	2009 AED'000
Carrying amount of investments in associates at the date of disposal	42,509
Less: consideration for disposal of associates – net	(37,806)
Net loss on disposal of associates (note 45)	4,703

12 Properties under construction

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

	2010 AED'000	2009 AED'000
Balance, beginning of the year	**388,648**	257,830
Additions during the year	**135,517**	130,818
Balance, end of the year	**524,165**	388,648

13 Properties held for sale

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

	2010 AED'000	2009 AED'000
Balance, beginning of year	**157,269**	168,251
Acquisition of controlling interest, net	**399,899**	-
Additions	**29,747**	701
Disposals (note 44)	**(16,569)**	(12,464)
Impaired during the year (note 49)	**(20,000)**	-
Exchange (losses)/ gain	**(5,387)**	781
Balance, end of the year	**544,959**	157,269

14 Investment properties

	2010 AED'000	2009 AED'000
Land		
In U.A.E.	**1,171,398**	1,171,398
Other G.C.C. Countries	**-**	936
Rest of World	**51,733**	51,783
	1,223,131	1,224,117
Less: Provision for impairment	**-**	(300)
	1,223,131	1,223,817
Other real estate		
In U.A.E.	**353,121**	353,121
Other G.C.C. Countries	**-**	4,193
Rest of World	**519,856**	555,659
	872,977	912,973
Less: Accumulated depreciation and impairment	**(173,197)**	(140,802)
	699,780	772,471
	1,922,911	1,996,288

The fair value of the Bank's investment properties as of 31 December 2010 is AED 2.47 billion (2009: AED 2.94 billion).

The fair value of the investment properties has been arrived on the basis of a valuation carried out by independent valuers. The valuers are members of various professional valuers' associations, and have appropriate qualifications and recent experience in the valuation of properties at the relevant locations. The effective date of the valuations is 31 December 2010.

Land in the U.A.E. includes land valued at AED 276.14 million (2009: AED 276.14 million) donated by the Government of Dubai which has been allocated for the sole benefit of the Shareholders (refer note 31).

14 Investment properties (continued)

The movement in investment properties is as follows:

2010	**Land AED'000**	**Other Real Estate AED'000**	**Total AED'000**
Cost:			
Balance, beginning of the year	**1,224,117**	**912,973**	**2,137,090**
Additions	**-**	**8,757**	**8,757**
Disposals	**(936)**	**(4,193)**	**(5,129)**
Exchange effect	**(50)**	**(44,560)**	**(44,610)**
Balance, end of the year	**1,223,131**	**872,977**	**2,096,108**
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	**300**	**140,502**	**140,802**
Charge for the year	**-**	**22,669**	**22,669**
Impairment, net	**-**	**13,629**	**13,629**
Disposal	**(300)**	**(626)**	**(926)**
Exchange effect	**-**	**(2,977)**	**(2,977)**
Balance, end of the year	**-**	**173,197**	**173,197**
Carrying amount 31 December 2010	**1,223,131**	**699,780**	**1,922,911**
2009			
Cost:			
Balance, beginning of the year	1,224,303	908,888	2,133,191
Additions	-	15,281	15,281
Disposals	-	(4,284)	(4,284)
Transfers	-	(8,867)	(8,867)
Exchange effect	(186)	1,955	1,769
Balance, end of the year	1,224,117	912,973	2,137,090
Accumulated depreciation/provision for impairment:			
Balance, beginning of the year	300	127,852	128,152
Charge for the year	-	18,722	18,722
Disposal	-	(1,186)	(1,186)
Transfers	-	(5,320)	(5,320)
Exchange effect	-	434	434
Balance, end of the year	300	140,502	140,802
Carrying amount 31 December 2009	1,223,817	772,471	1,996,288

Investment properties includes properties with a carrying value amount of AED 482.16 million (2009: 524.86 million) have been mortgage by one of the subsidiary as security financing obligation to other bank.

15 Receivables and other assets

	2010 AED'000	2009 AED'000
Accrued profit on investing, financing and Sukuks	**876,448**	818,440
Other income receivable	**109,100**	101,217
Trade receivables	**72,202**	54,188
Cheques sent for collection	**13,236**	11,865
Advances to contractors	**4,456**	38,999
Inventories	**14,947**	9,443
Prepaid expenses	**87,908**	81,910
Qard Hassan (profit-free facilities)	**8,000**	8,000
Overdrawn current accounts, net	**39,816**	27,963
Deferred taxation (note 26)	**19,300**	18,057
Islamic derivative assets (note 38)	**61,074**	86,572
Others	**990,386**	207,417
	2,296,873	1,464,071

Overdrawn current accounts, net are stated net of provision for impairment amounting to AED 54.50 million (2009: AED 43.25 million).

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

16 Property, plant and equipment

2010

	Land and buildings AED'000	Plant and machinery AED'000	Furniture and office equipment AED'000	Information technology AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
1 January 2010	90,369	82,852	346,095	353,599	4,165	286,625	1,163,705
Acquisition of controlling interest	24,648	-	9,958	18,511	-	313	53,430
Additions	1,654	1,356	17,241	8,260	627	64,165	93,303
Disposals	(1,123)	-	(455)	-	(804)	-	(2,382)
Other transfers	283,271	-	5,082	30,643	-	(326,003)	(7,007)
Exchange adjustments	(34)	(80)	(1,013)	(641)	(20)	(25)	(1,813)
31 December 2010	398,785	84,128	376,908	410,372	3,968	25,075	1,299,236
Accumulated depreciation:							
1 January 2010	33,102	56,307	217,043	195,986	3,472	-	505,910
Acquisition of controlling interest	2,145	-	4,378	12,434	-	-	18,957
Charge for the year	9,035	4,317	51,549	57,527	427	-	122,855
Disposals	-	-	(303)	-	(730)	-	(1,033)
Reclassification	-	-	30	(30)	-	-	-
Exchange adjustments	-	(19)	(314)	(191)	(15)	-	(539)
31 December 2010	44,282	60,605	272,383	265,726	3,154	-	646,150
Carrying amount							
31 December 2010	354,503	23,523	104,525	144,646	814	25,075	653,086

16 Property, plant and equipment (continued)

2009

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

Capital work in progress comprises costs incurred on information technology projects and civil work for branch network.

17 Goodwill

	2010 AED'000	2009 AED'000
At 1 January	**34,516**	-
Additions (note 20.2)	**-**	34,516
Impaired during the year (note 49)	**(17,258)**	-
At 31 December	**17,258**	34,516

Impairment testing of goodwill

During 2010, the goodwill resulting from a business combination has been tested for impairment and accordingly the carrying value of goodwill adjusted for impairment.

18 Investments in joint ventures

18.1 Significant joint ventures

Details of the Bank's significant joint ventures at the end of reporting period are as follows:

	Joint ventures	Principal activity	Country of incorporation	Percentage of equity 2010	2009
1.	Al Bustan Center Company L.L.C.	Rental of apartments and shops	U.A.E.	50.0%	50.0%
2.	Millennium Private Equity L.L.C.	Fund Management	U.A.E.	50.0%	50.0%
3.	Al Rimal Development	Property development	U.A.E.	50.0%	50.0%
4.	Waqf Trust Services L.L.C. (under liquidation)	Trust and fiduciary services	U.A.E.	50.0%	50.0%
5.	Gulf Tankers L.L.C. (under liquidation)	Cargo and transport	U.A.E.	50.0%	50.0%

The entities listed as 4 and 5 did not conduct any operations during the current or previous periods.

18.2 Carrying value of investment in joint ventures

The Bank's 50% share of assets and liabilities in the joint ventures included in the consolidated financial statements are disclosed below:

	2010 AED'000	2009 AED'000
Cash and balances with banks	**1,186**	8,915
Other investments	**1,013**	1,212
Properties under construction	**47,803**	47,798
Receivables and other assets	**16,474**	11,539
Property and equipment	**5,615**	5,993
Total assets	**72,091**	75,457
Total liabilities	**32,633**	39,935
Net profit for the year	**16,045**	10,465

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

19 Subsidiaries

The Bank's interest held directly or indirectly in the subsidiaries are as follows:

	Subsidiaries	Principal activity	Country of incorporation	Percentage of equity 2010	2009
1.	DIB Capital Limited	Investments and financial services	U.A.E.	95.5%	95.5%
2.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100.0%	100.0%
3.	Tamweel P.J.S.C	Financing and investment	U.A.E	58.3%	-
4.	Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	95.5%	95.5%
5.	Millennium Capital Holding PSC	Financing & investing	U.A.E.	95.5%	95.5%
6.	Dar al Shariah Financial & Legal Consultancy L.L.C.	Financial and legal advisory	U.A.E.	60.0%	60.0%
7.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	99.5%	99.5%
8.	Emirates Automotive Leasing Company	Trading in motor vehicles	U.A.E.	100.0%	100.0%
9.	Emirates REIT Management Private Limited	Properties management	U.A.E	60.0%	-
10.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	100.0%	96.0%
11.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	100.0%	96.0%
12.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100.0%	100.0%
13.	Naseej Fabric Manufacturing L.L.C.	Textile Manufacturing	U.A.E.	99.0%	99.0%
14.	DIB Printing Press L.L.C.	Printing	U.A.E.	99.5%	99.5%
15.	Levant One Investment Limited	Investments	U.A.E.	100.0%	100.0%
16.	Petra Limited	Investments	Cayman Islands	100.0%	100.0%
17.	Al Ahlia Aluminum Company L.L.C. (under liquidation)	Aluminum fixtures	U.A.E.	75.5%	75.5%
18.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	100.0%	100.0%
19.	Tamweel Funding Limited	Sukuk	Jersey	58.3%	-
20.	Tamweel Sukuk Limited	Sukuk	Cayman Islands	58.3%	-
21.	Tamweel ESOT Limited	Employees share options	British Virgin Islands	58.3%	-
22.	Tamweel Properties & Investments L.L.C	Real estate development	U.A.E	58.3%	-
23.	Tahfeez Middle East Limited	General trading	U.A.E	58.3%	-

19 Subsidiaries (continued)

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

	SPV	Principal activity	Country of incorporation	Percentage of equity 2010	Percentage of equity 2009
24.	HoldInvest Real Estate Sarl	Investments	Luxembourg	Controlling interest	Controlling interest
25.	France Invest Real Estate SAS	Investments	France	Controlling interest	Controlling interest
26.	SARL Barbanniers	Investments	France	Controlling interest	Controlling interest
27.	SCI le Sevine	Investments	France	Controlling interest	Controlling interest
28.	Findi Real Estate SAS	Investments	France	Controlling interest	Controlling interest
29.	PASR Einudzwanzigste Beteiligunsverwaltung GMBH	Investments	Austria	Controlling interest	Controlling interest
30.	Al Islami German Holding Co. GMBH	Investments	Germany	Controlling interest	Controlling interest
31.	Rhein Logistics GMBH	Investments	Germany	Controlling interest	Controlling interest
32.	Jef Holdings BV	Investments	Netherlands	Controlling interest	Controlling interest
33.	Zone One Real Estate Management Co.	Investments	Cayman Islands	100.0%	100.0%
34.	Zone Two Real Estate Management Co.	Investments	Cayman Islands	Controlling interest	Controlling interest
35.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
36.	DIB Lease One Ltd.	Investments	Bahamas	100.0%	100.0%
37.	DIB Lease One (Dublin) Ltd.	Investments	Ireland	100.0%	100.0%
38.	Gulf Atlantic FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
39.	Al Islami Oceanic Shipping Co FZ L.L.C.	Investments	U.A.E.	100.0%	100.0%
40.	Sequia Investments L.L.C.	Investments	U.A.E.	100.0%	100.0%
41.	Bulwark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
42.	Optimum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
43.	Rubicon Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
44.	Osiris Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
45.	Lotus Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
46.	Premiere Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
47.	Landmark Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
48.	Blackstone Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
49.	Blue Nile Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
50.	Momentum Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%
51.	Mount Sinai Investments L.L.C.	Investments	U.A.E.	99.0%	99.0%

In addition to the registered ownership described above, the remaining equity in the entities 1, 4, 5, 7, 13, 14, 17 and 40 to 51 also held by the Bank beneficially through nominee arrangements.

The entities listed as 8 and 17 did not conduct any operations during the current or previous periods.

20 Business combination

20.1 Acquisition of Tamweel P.J.S.C

Tamweel P.J.S.C ("the Company"), a company listed in NASDAQ Dubai and engaged in Islamic Sharia'a compliant financing and investment activities became a subsidiary of the Bank on the 4th of November 2010. The Bank acquired further shares of the Company from major shareholders thereby acquiring a controlling interest. The acquisition was done to unfold the value of the Company by providing long term strategic support. The acquisition will help the Bank in becoming largest retail islamic home financing bank in the U.A.E.

The fair value of identifiable assets and liabilities of the Company as at the acquisition date is as follows:

	Recognised on acquisition 2010 AED'000
Cash and balances with banks	236,758
Islamic financing and investing assets	9,758,677
Other investments	46,859
Properties held for sale	399,899
Receivables and other assets	98,060
Property and equipment	34,473
Total assets	10,574,726
Financing obligation	7,528,058
Accounts payable and accruals	346,668
Total liabilities	7,874,726
Fair value of net assets – 100%	2,700,000
Consideration for acquisition	935,600
Less: fair value of identifiable net assets acquired	(1,572,638)
Gain on acquiring controlling interest	637,038

The fair value of the net assets has been determined by the Bank on the basis of valuation of the Company carried by an external valuer that is not related to the Bank. The valuation of the Company was based on generally accepted business valuation techniques including the dividend discount model and adjusted book value method.

Consideration of acquisition

	2010 AED'000
Cash	318,609
Transfer of treasury shares	56,121
Fair value of available for sale shares	560,870
Total consideration	935,600

20 Business combination (continued)

20.1 Acquisition of Tamweel P.J.S.C (continued)

The transaction cost amounting to AED 1.1 million has been excluded from the consideration transferred and have been recognised as an expenses in the consolidated income statement.

Non-controlling interest of the Company was recognised at the acquisition date and was measured at cost.

The total revenue and net profit of the Bank includes AED 89.9 million and AED 6.1 million respectively in respect of post acquisition period. Had the Company been acquired on 1 January 2010, the total revenue and net profit of the Bank would have increased by AED 607 million and AED 21.4 million respectively.

20.2 Acquisition of Millennium Private Equity L.L.C

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

	Recognised on acquisition 2009 AED'000
Cash and balances with banks	4,269
Other assets	9,964
Property and equipment	1,344
Total assets	15,577
Other liabilities	7,477
Total liabilities	7,477
Fair value of net assets – 100%	8,100
Consideration for acquisition	38,566
Less: fair value of identifiable net assets acquired	(4,050)
Goodwill arising on acquisition (note 17)	34,516

The fair values of the net asset were arrived at on the basis of a valuation carried out by an independent external valuer that is not related to the Bank.

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

21 Customers' deposits

	2010 AED'000	2009 AED'000
a) By type:		
Current accounts	**15,087,566**	14,015,030
Saving accounts	**10,047,003**	9,881,740
Investment deposits	**38,124,012**	40,023,078
Margin accounts	**188,102**	233,769
Profit equalisation provision (note 53)	**387**	41,886
	63,447,070	64,195,503
b) By contractual maturity:		
Demand deposits	**24,876,422**	24,556,123
Deposits due within 3 months	**18,843,284**	21,453,380
Deposits due within 6 months	**7,269,059**	7,684,018
Deposits due within 1 year	**12,310,178**	10,347,086
Deposits due over 1 year	**148,127**	154,896
	63,447,070	64,195,503
c) By geographical areas:		
Within U.A.E.	**61,122,089**	62,448,316
Outside U.A.E.	**2,324,981**	1,747,187
	63,447,070	64,195,503
d) By currency:		
U.A.E. Dirham	**58,724,097**	56,986,387
Other currencies	**4,722,973**	7,209,116
	63,447,070	64,195,503

22 Due to banks and financial institutions

	2010 AED'000	2009 AED'000
Current accounts	**51,517**	53,890
Investment deposits	**4,357,910**	1,395,161
	4,409,427	1,449,051

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

	2010 AED'000	2009 AED'000
Within U.A.E.	**3,993,101**	1,328,864
Outside U.A.E.	**416,326**	120,187
	4,409,427	1,449,051

23 Sukuk financing instruments

		2010 AED'000	2009 AED'000
23.1	Sukuk financing instruments issued by the Bank	**2,357,075**	2,415,034
23.2	Sukuks financing instruments issued by a subsidiary	**1,818,940**	-
		4,176,015	2,415,034

23.1 Sukuk financing instruments issued by the Bank

During 2007 the Bank, through a Sharia'a compliant Sukuk Financing arrangement, raised a US Dollar denominated medium term finance amounting to AED 2,754.75 million (USD 750 million). The sukuks are listed on the NASDAQ Dubai and the London Stock Exchange.

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

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

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

During 2010, sukuks amounting to AED 58.0 million (USD 15.8 million) (2009: AED 340 million (USD 92.5 million) were bought back at a discount, including buy back through a cash tender offer to sukuk holders. The Bank has recognised AED 6.4 million (2009: AED 38.7 million) as a related gain on sukuk buy back which is included under other income. These sukuk certificates will be cancelled upon maturity when the Bank will re-purchase the Co Owned Assets.

23.2 Sukuks financing instruments issued by a subsidiary

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

- As at 31 December 2010, the sukuk held by third parties were AED 1.82 million.

23 Sukuk financing instruments (continued)

23.2 Sukuks financing instruments issued by a subsidiary (continued)

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

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

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

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

24 Medium term wakala finance

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

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

25 Payables and other liabilities

	2010	2009
	AED'000	AED'000
Depositors' share of profits (note 50)	**329,928**	364,140
Payable for properties	**248,153**	171,079
Bankers cheques	**185,822**	255,300
Sundry deposits	**429,357**	399,044
Trade payables	**411,411**	443,075
Rent received in advance	**122,728**	167,053
Vendor payable for investing and financing assets	**116,487**	665,724
Provision for employees' end-of-service benefits (note 27)	**101,737**	89,554
Unclaimed dividends	**52,121**	38,964
Directors' remuneration	**4,800**	4,800
Payable to contractors	**18,274**	4,856
Fund transfer and remittances	**51,508**	74,664
Investments related payable	**293,585**	293,585
Cheques received for collection	**465**	1,624
Provision for taxation (note 26)	**3,626**	-
Others	**1,309,921**	397,342
	3,679,923	3,370,804

26 Taxation

Provision for taxation

	2010 AED'000	2009 AED'000
Opening balance	-	3,544
Charge for the year	5,040	892
Tax paid	(1,414)	(4,436)
Closing balance (note 25)	3,626	-

Deferred tax asset

	2010 AED'000	2009 AED'000
Deferred tax asset at beginning of the year	18,057	25,371
Additions/(reversals) during the year	1,545	(5,952)
Exchange effect	(302)	(1,362)
Deferred tax asset at the end of the year (note 15)	19,300	18,057

Tax expense for the year

	2010 AED'000	2009 AED'000
Current taxation	(5,037)	(892)
Deferred taxation	1,545	(5,952)
Income tax expense	(3,492)	(6,844)

27 Provision for employees' end-of-service benefits

	2010 AED'000	2009 AED'000
At 1 January	89,554	74,313
Charge during the year	27,140	22,200
Paid during the year	(14,957)	(6,959)
At 31 December (note 25)	101,737	89,554

28 Accrued Zakat

	2010 AED'000	2009 AED'000
Zakat on Shareholders' equity	146,326	139,428
Zakat on profit equalisation provision (note 53)	10	1,108
	146,336	140,536

29 Share capital

	2010		2009	
	Number of Shares'000	**Amount in AED'000**	Number of shares'000	Amount in AED'000
Authorised				
Ordinary shares of AED 1 each	**3,797,054**	**3,797,054**	3,617,505	3,617,505
Issued and fully paid up				
At 1 January	**3,617,505**	**3,617,505**	3,445,400	3,445,400
Bonus shares	**179,549**	**179,549**	172,105	172,105
At 31 December	**3,797,054**	**3,797,054**	3,617,505	3,617,505

During the year, 179,549,000 shares of AED 1 each were issued as bonus shares (2009: 172,105,000 shares).

30 Treasury shares

The treasury shares at 31 December 2009 included the shares acquired from a third party on settlement of certain transactions.

31 Reserves

	Statutory reserve AED'000	Donated land reserve AED'000	General reserve AED'000	Exchange translation reserve AED'000	Total AED'000
As of 1 January 2009	2,731,879	276,139	2,250,000	(59,680)	5,198,338
Exchange and other adjustments	-	-	-	(18,161)	(18,161)
Transfer from retained earnings	-	-	100,000	-	100,000
As of 1 January 2010	2,731,879	276,139	2,350,000	(77,841)	5,280,177
Exchange and other adjustments	-	-	-	(13,700)	(13,700)
As of 31 December 2010	**2,731,879**	**276,139**	**2,350,000**	**(91,541)**	**5,266,477**

Statutory reserve

Article 192 of the U.A.E. Commercial Companies Law No. (8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

The Board of Directors has resolved to discontinue the annual transfer to statutory reserve as the reserve exceeds 50% of the paid up capital.

31 Reserves (continued)

Donated land reserve

The Government of Dubai has donated certain land which has been allocated for the sole benefit of the shareholders of the Bank. Such land is included in investment properties (note 14). The donated land reserve represents the fair value of the land, net of disposals, at the time of the donation.

General reserve

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

Exchange translation reserve

Exchange translation reserve relating to the translation of the results and net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. AED) are recognised directly in other comprehensive income and accumulated in the exchange translation reserve.

32 Cumulative changes in fair value

	2010 AED'000	2009 AED'000
At 1 January	**(723,713)**	(888,714)
Net unrealised gain on available for sale investments	**606,140**	165,310
Reclassification of realised gain on disposal of available for sale investments to profit or loss	**(125,593)**	(309)
At 31 December	**(243,166)**	(723,713)

33 Dividends paid and proposed

	2010 AED'000	2009 AED'000
Dividend proposed		
Cash dividend:		
(2010: AED 0.10 per share)	**379,705**	-
Dividend proposed and paid		
Cash dividend:		
(2009: AED 0.15 per share)	-	538,648
Scrip dividend		
(2009: AED 0.05 per share)	-	179,549

34 Hedging reserve

During 2009 the Bank discontinued its cash flow hedge of a forecast transaction which resulted in reclassification of associated cumulative gains during 2010 of AED 39.9 million (2009: AED 45.2 million). Refer to note 42.

35 Employee stock Ownership plan (ESOP)

The Bank commenced Employee Stock Ownership Plans (ESOP) to recognise and retain key employees in 2004. The plans give employees the right to own the Bank's shares at the issue price.

The following share based payment arrangements were in existence in current and previous years.

	Issue year	*No of shares*	*Grant date*	*Expiry date*	*Exercise price*	*Fair value at grant date*
1	2006	4,113,000	January 2006	February 2010	2	26.7
2	2010	1,560,000	April 2010	March 2012	-	2.0

The shares were granted under nominee arrangements, to various categories of employees on condition that the employees continue in the service of the Bank for an agreed minimum period ranging between two to four years from the grant date. Should the employee leave before the completion of the full vesting period, a proportion of the shares would revert back to the Bank. Generally, the management considers it unlikely that a significant amount of shares would revert back to the Bank on account of employees leaving before completing their vesting period. In 2008, some of staffs have left the Bank, and 1,576,836 shares have been taken back. As a result the yearly charges on account of ESOP have been changed prospectively as follows:

The fair value of existing ESOP in current and previous years on grant date and adjusted charge over vesting period is as follows.

Year	*Current charge to consolidated income statement* AED '000	*Charge to consolidated income statement at grant date* AED '000
2006	30,312	30,312
2007	36,846	36,846
2008	18,049	25,085
2009	5,444	6,856
2010	1,580	3,594
2011	1,653	1,653
2012	551	551
Total	94,435	104,897

36 Non-controlling interest

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

37 Contingent liabilities and commitments

Financing-related financial instruments

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

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

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

	2010	2009
	AED'000	AED'000
Contingent liabilities:		
Letters of guarantee	**8,774,047**	10,484,586
Letters of credit	**2,535,666**	3,519,943
	11,309,713	14,004,529
Commitments:		
Capital expenditure commitments	**388,932**	416,257
Irrevocable undrawn facilities commitments	**12,567,539**	11,217,244
	12,956,471	11,633,501
Total contingent liabilities and commitments	**24,266,184**	25,638,030

38 Islamic derivatives

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

31 December 2010: ***Notional amounts by term to maturity***

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	**15,127**	**14,029**	**5,308,254**	**2,552,713**	**2,748,360**	**7,181**	**-**	**-**
Islamic profit rate Swaps (refer note 15)	**258,074**	**197,000**	**9,995,651**	**-**	**-**	**9,324,101**	**-**	**671,550**
	273,201	**211,029**	**15,303,905**	**2,552,713**	**2,748,360**	**9,331,282**	**-**	**671,550**

38 Islamic derivatives (continued)

31 December 2009: *Notional amounts by term to maturity*

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount total AED'000*	*Within 3 months AED'000*	*Over 3 months to 1 year AED'000*	*Over 1 year to 3 years AED'000*	*Over 3 to 5 years AED'000*	*Over 5 years AED'000*
Islamic Derivatives held for trading:								
Unilateral promise to buy/sell currencies	13,793	16,457	8,428,233	3,807,118	1,332,980	2,904,929	383,206	-
Islamic profit rate Swaps (refer note 15)	275,548	188,976	12,609,741	-	-	-	12,217,140	392,601
	289,341	205,433	21,037,974	3,807,118	1,332,980	2,904,929	12,600,346	392,601

The Bank has positions in the following types of derivative.

Unilateral Promise to buy/sell currencies

Unilateral promises to buy/sell currencies are promises to either buy or sell a specified currency at a specific price and date in the future. The actual transactions are executed on the value dates, by exchanging the purchase/sale offers and acceptances between the relevant parties.

Islamic Swaps

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

Derivatives held or issued for trading purposes

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

Derivatives held or issued for hedging purposes

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

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

39 Income from Islamic financing and investing assets

	2010 AED'000	2009 AED'000
Financing assets		
Commodities murabahat	**416,517**	454,259
International murabahat	**10,023**	18,046
Vehicles murabahat	**486,552**	486,540
Real estate murabahat	**258,304**	352,726
Total murabahat income	**1,171,396**	1,311,571
Istisna'a	**458,702**	408,560
Home finance ijara	**188,907**	155,650
Ijara	**432,505**	416,952
Salam finance	**52,349**	-
Income from financing assets	**2,303,859**	2,292,733
Investing assets		
Musharakat	**597,013**	625,053
Mudarabat	**270,604**	354,791
Wakalat	**37,584**	42,945
Others	**12,635**	7,335
Income from investing assets	**917,836**	1,030,124
Total income from Islamic financing and investing assets	**3,221,695**	3,322,857

Income from investing and financing assets is presented net of forfeited income of AED 12 million (2009: AED 8.97 million).

40 Income from International murabahats and wakala, short term

	2010 AED'000	2009 AED'000
Income from International murabahats from Banks and financial institutions	**13,328**	20,087
Income from Investment and wakala deposits	**21,199**	31,391
Income from International murabahats with Central Bank	**1,786**	-
	36,313	51,478

41 Gain/(loss) from other investments

	2010 AED'000	2009 AED'000
Realised gain on disposal of available for sale investments	**125,593**	-
Loss on disposal of investments carried at fair value through profit or loss	**(1,941)**	(6,841)
Loss on revaluation of investments carried at fair value through profit or loss	**(13,182)**	(53,562)
Dividend on investments carried at fair value through profit or loss	**281**	16,310
Dividend on available for sale equity investments	**24,022**	23,336
Dividend from available for sale investment funds	**1,390**	1,822
	136,163	(18,935)

Dividend on available for sale investment is presented net of forfeited income of AED nil (2009: AED 3.05 million).

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

42 Commissions, fees and foreign exchange income

	2010 AED'000	2009 AED'000
Trade related commission and fees	**170,933**	237,930
Other commissions and fees	**371,430**	369,071
Gains on unilateral promise to buy/sell currencies	**102,836**	99,842
Cumulative gains on hedging reserve reclassified to profit or loss (note 34)	**39,944**	45,219
Fair value of Islamic derivatives	**1,887**	107
	687,030	752,169

Other commission and fees is presented net of forfeited income of AED nil (2009: AED 1.20 million).

43 Income from investment properties

	2010 AED'000	2009 AED'000
Net rental income	**72,165**	75,609
Gain on sale of investment properties	**18,001**	2,691
	90,166	78,300

44 Income from sale of properties held for sale

	2010 AED'000	2009 AED'000
Sales proceeds	**31,067**	13,461
Cost of sale (note 13)	**(16,569)**	(12,464)
	14,498	997

45 Other income

	2010 AED'000	2009 AED'000
Services income, net	**85,059**	32,446
Loss on disposal of interest in associates (note 11.6)	**-**	(4,703)
Other	**54,947**	158,710
	140,006	186,453

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

46 Personnel expenses

	2010 AED'000	2009 AED'000
Salaries and wages	**779,673**	712,859
Staff terminal benefits	**27,140**	22,200
Share based payments	**1,581**	5,444
Other	**9,425**	72,699
	817,819	813,202

47 General and administrative expenses

	2010 AED'000	2009 AED'000
Administrative expenses	**107,538**	110,029
Depreciation of property, plant and equipment (refer note 16)	**122,855**	116,008
Rental charges under operating leases	**77,194**	67,082
Communication costs	**67,110**	53,507
Premises and equipment maintenance costs	**45,516**	42,869
Printing and stationery	**13,284**	11,713
Miscellaneous write offs	**-**	23,997
Other	**109,446**	99,555
	542,943	524,760

48 Impairment loss on financial assets, net

	2010 AED'000	2009 AED'000
Net provision for financing assets	**617,287**	671,284
Net provision for investing assets	**36,149**	45,406
Net provision for receivables and other assets	**11,328**	15,737
Impairment loss on available for sale investments	**136,291**	92,660
Reversal in provision for available for sale investment funds	**-**	(15,743)
	801,055	809,344

49 Impairment loss on non-financial assets, net

	2010 AED'000	2009 AED'000
Impairment loss on investment in associates	**12,237**	8,565
Impairment of investment properties	**13,329**	-
Impairment of properties held for sale	**20,000**	-
Impairment of Goodwill	**17,258**	-
	62,824	8,565

50 Depositors' share of profits

	2010 AED'000	2009 AED'000
Share for the year	**1,435,631**	1,739,197
Less: Pertaining to depositors' profit equalisation provision (note 53)	**(511)**	(11,636)
Transfer from depositors' profit equalisation provision (note 53)	**42,000**	195,500
	1,477,120	1,923,061
Less: Paid during the year	**(1,147,192)**	(1,558,921)
Depositors' share of profit payable (note 25)	**329,928**	364,140
Share of profits accrued to customers and financial institutions are as		
Investment and savings deposits from customers	**996,491**	1,176,329
Wakala and other investment deposits from banks and customers	**409,884**	529,138
Profit accrued on sukuk financing instrument	**29,256**	33,730
	1,435,631	1,739,197

51 Basic and diluted earnings per share

Basic and diluted earnings per share are calculated by dividing the net profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2010	2009
Profit for the year net of directors' remuneration of AED 4,800,000 (2009: AED 4,800,000)	**801,723,000**	1,202,691,000
Weighted average number of shares of AED 1 each outstanding during the year	**3,776,269,000**	3,772,112,000
Basic and diluted earnings per share in AED	**0.21**	0.32

The earnings per share of AED 0.33 as reported for 2009 has been adjusted for the effect of the shares issued in 2010 as a result of the bonus shares.

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

52 Cash and cash equivalents

	2010 AED'000	2009 AED'000
Cash and balances with Central Banks	**11,247,225**	11,611,570
Due from banks and financial institutions	**2,356,531**	2,557,258
	13,603,756	14,168,828
Less: Balances and deposits with banks and financial institutions with original maturity over 3 months	**(3,120,075)**	(88,836)
	10,483,681	14,079,992

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

53 Profit equalisation provision

	2010 AED'000	2009 AED'000
Balance, beginning of the year – as reported	**41,886**	226,858
Share of profit for the year (note 50)	**511**	11,636
Zakat for the year (note 28)	**(10)**	(1,108)
Additional transfer to depositors' share of profit during the year (note 50)	**(42,000)**	(195,500)
Balance, end of the year (note 21)	**387**	41,886

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

54 Related party transactions

The Bank enters into arms length transactions with Shareholders, directors, key management personnel and their related concerns in the ordinary course of business at commercial profit and commission rates. All facilities to related parties are performing facilities and are free of any provision for possible impairment.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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

	Major Shareholders AED'000	**Directors and key management personnel AED'000**	**Associates AED'000**	**Total AED'000**
2010				
Financing and investing assets	**1,836,500**	**183,701**	**463,475**	**2,483,676**
Customers' deposits	**2,847,087**	**43,772**	**172,052**	**3,062,911**
Income from financing and investing assets	**56,914**	**10,662**	**4,321**	**71,897**
Depositors' share of profits	**107,538**	**663**	**171**	**108,372**
Contingent liabilities	**-**	**303**	**700**	**1,003**

	Major Shareholders AED'000	Directors and key management personnel AED'000	Associates AED'000	Total AED'000
2009				
Financing and investing assets	3,812,737	182,362	513,774	4,508,873
Customers' deposits	5,065,054	55,652	287,281	5,407,987
Income from financing and investing assets	73,252	12,194	14,562	100,008
Depositors' share of profits	38,443	988	1,910	41,341
Contingent liabilities	2,038,091	890	700	2,039,681

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

54 Related party transactions (continued)

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

	2010 **AED'000**	2009 AED'000
Salaries and other benefits	**28,915**	45,164
Employee terminal benefits	**1,948**	1,612

55 Segmental information

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

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

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

ii) Wholesale Banking: Principally handling financing and other credit facilities and deposit and current accounts for corporate and institutional customers and investment banking services.

iii) Real estate: Property development and other real estate investments.

iv) Treasury: Principally responsible for managing the Bank's overall liquidity and market risk and provide treasury services to customers. Treasury also run its own Islamic debt and specialise financial instruments book to manage the above risk.

iv) Others: Functions other then above core lines of businesses.

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

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

55 Segmental information (continued)

Primary segment information – business segments

The following table presents income and profit and certain asset and liability information regarding the Bank's business segments for the year ended 31 December:

	Retail and business banking		Wholesale banking		Real estate		Treasury		Others		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Net operating revenue	**1,615,121**	1,526,668	**1,076,996**	1,003,966	**(215,074)**	(291,116)	**360,219**	616,837	**435,656**	520,018	**3,272,918**	3,376,373
Share of profit /(loss) of associates	**-**	-	**25,614**	17,345	**(872,135)**	-	**-**	-	**-**	-	**(846,521)**	17,345
Gain on acquiring controlling interest	**-**	-	**-**	-	**-**	-	**-**	-	**637,038**	-	**637,038**	-
Operating expenses	**(893,736)**	(848,469)	**(297,274)**	(339,313)	**(67,162)**	(55,319)	**(20,623)**	(21,437)	**(104,636)**	(92,146)	**(1,383,431)**	(1,356,684)
Provision for impairment	**(178,141)**	(134,044)	**(677,285)**	(671,889)	**-**	(7,659)	**-**	-	**(8,453)**	(4,317)	**(863,879)**	(817,909)
Profit for the year before tax	**543,244**	544,155	**128,051**	10,109	**(1,154,371)**	(354,094)	**339,596**	595,400	**959,605**	423,555	**816,125**	1,219,125
Income tax	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(3,492)**	(6,844)
Profit for the year	**543,244**	544,155	**128,051**	10,109	**(1,154,371)**	(354,094)	**339,596**	595,400	**959,605**	423,555	**812,633**	1,212,281

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

55 Segmental information (continued)

Primary segment information – business segments

The following table presents income and net profit regarding the Bank's business segments:

	Retail and business banking		Wholesale Banking		Real estate		Treasury		Others		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Segment assets	**23,718,232**	12,306,672	**37,999,806**	41,923,446	**4,748,006**	5,509,332	**9,598,156**	10,645,772	**14,073,571**	13,919,049	**90,137,771**	84,304,271
Segment liabilities and equity	**46,862,730**	43,553,495	**21,079,548**	25,196,796	**547,096**	837,709	**8,925,308**	4,241,853	**12,723,089**	10,474,418	**90,137,771**	84,304,271
Capital expenditure	**27,991**	44,188	**27,991**	44,188	**-**	-	**18,661**	29,458	**18,660**	29,458	**93,303**	147,292

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

55 Segmental information (continued)

Secondary segment information – geographical segments

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

	Domestic		*International*		*Total*	
	2010	2009	**2010**	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Gross income	**3,415,024**	4,694,063	**447,004**	438,852	**3,862,028**	5,132,915
Total assets	**84,110,228**	76,872,268	**6,027,543**	7,432,003	**90,137,771**	84,304,271
Total liabilities and equity	**84,757,343**	79,429,952	**5,380,428**	4,874,319	**90,137,771**	84,304,271
Capital expenditure	**78,869**	135,959	**14,434**	11,333	**93,303**	147,292

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

56 Maturity analysis of assets and liabilities

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

At 31 December 2010

	Less than one month AED'000	1 – 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	4,135,310	4,310,176	2,801,739	-	-	11,247,225
Due from banks and financial institutions	395,530	1,638,868	322,133	-	-	2,356,531
Islamic financing and investing assets	5,746,037	2,985,310	6,903,828	21,459,918	20,075,974	57,171,067
Investment in Islamic sukuk	14	-	240,339	6,630,716	1,329,407	8,200,476
Other investments	-	-	706,995	1,065,951	-	1,772,946
Investments in associates	-	-	-	3,430,274	-	3,430,274
Properties under construction	-	-	-	524,165	-	524,165
Properties held for sale	-	-	135,368	409,591	-	544,959
Investment properties	-	-	-	1,922,911	-	1,922,911
Receivables and other assets	60,512	80,944	2,093,236	56,338	5,843	2,296,873
Property, plant and equipment	9,887	19,227	85,100	199,462	339,410	653,086
Goodwill	-	-	-	17,258	-	17,258
Total assets	10,347,290	9,034,525	13,288,738	35,716,584	21,750,634	90,137,771
Liabilities:						
Customers' deposits	9,098,359	6,596,396	27,085,844	20,643,365	23,106	63,447,070
Due to banks and other financial institutions	183,309	435,594	1,747,226	2,043,298	-	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	-	4,176,015
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	1,434,465	266,427	1,531,586	447,445	-	3,679,923
Accrued zakat	-	-	146,336	-	-	146,336
Equity	-	-	379,705	(243,166)	10,389,918	10,526,457
Total liabilities and equity	10,716,133	7,298,417	30,890,697	27,066,957	14,165,567	90,137,771
Net maturities gap	(368,843)	1,736,108	(17,601,959)	8,649,627	7,585,067	-

56 Maturity analysis of assets and liabilities (continued)

At 31 December 2009

	Less than one month AED'000	1 – 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets:						
Cash and balances with Central banks	7,868,036	3,743,534	-	-	-	11,611,570
Due from banks and financial institutions	1,871,280	685,978	-	-	-	2,557,258
Islamic financing and investing assets	5,483,365	3,725,723	4,442,826	24,778,197	11,494,830	49,924,941
Investment in Islamic sukuk	-	2,550	1,174,732	5,741,513	2,372,002	9,290,797
Other investments	-	-	1,022,954	902,996	-	1,925,950
Investments in associates	-	-	-	-	4,295,168	4,295,168
Properties under construction	-	-	-	388,648	-	388,648
Properties held for sale	-	-	157,269	-	-	157,269
Investment properties	-	-	-	1,996,288	-	1,996,288
Receivables and other assets	87,719	56,572	1,319,780	-	-	1,464,071
Property, plant and equipment	7,818	15,636	70,361	523,279	40,701	657,795
Goodwill	-	-	-	-	34,516	34,516
Total assets	15,318,218	8,229,993	8,187,922	34,330,921	18,237,217	84,304,271
Liabilities:						
Customers' deposits	12,263,174	7,429,426	24,824,200	19,678,703	-	64,195,503
Due to banks and other financial institutions	151,551	48,831	1,248,669	-	-	1,449,051
Sukuk financing instruments	-	-	-	2,415,034	-	2,415,034
Medium term wakala finance	-	-	-	-	3,752,543	3,752,543
Other liabilities	849,740	177,180	1,924,237	419,647	-	3,370,804
Accrued zakat	-	-	140,536	-	-	140,536
Equity	-	-	765,759	(723,713)	8,938,754	8,980,800
Total liabilities and equity	13,264,465	7,655,437	28,903,401	21,789,671	12,691,297	84,304,271
Net maturities gap	2,053,753	574,556	(20,715,479)	12,541,250	5,545,920	-

57 Fair vales of financial instruments

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

The fair value of unilateral promise to buy/sell currencies and Islamic swaps is set out in note 38. The fair value of the Bank's other financial assets and liabilities, except unquoted securities which are stated at cost, are not materially different from their carrying values as at 31 December 2010.

57 Fair values of financial instruments (continued)

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

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

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

  Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities. This level includes listed equity securities and investments in Islamic sukuk.

  Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC Islamic derivative contracts. The sources of input parameters like variable yield curve or counterparty credit risk are obtained from Bloomberg and Reuters.

  Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and Islamic financing instruments with significant unobservable components.

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

  The table below summarises the fair value of financial instruments of the Bank's financial instruments according to fair value hierarchy.

At 31 December 2010

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL				
Other investments	108,406	-	-	108,406
Islamic derivative financial assets held for trading	-	61,074	-	61,074
Available-for-sale financial assets				
Quoted equities	601,348	-	-	601,348
Investment in Islamic sukuk	1,195,151	-	-	1,195,151
Total	1,904,905	61,074	-	1,965,979

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

57 Fair values of financial instruments (continued)

At 31 December 2009

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

58 Financial assets and liabilities

At 31 December 2010

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	9,872,471	9,872,471
Due from banks and financial institutions	-	-	-	2,356,531	2,356,531
Islamic financing and investing assets	57,171,067	-	-	-	57,171,067
Investment in Islamic sukuk	-	1,195,151	-	7,005,325	8,200,476
Other investments	-	1,664,540	108,406	-	1,772,946
Receivables and other assets	2,021,583	-	-	-	2,021,583
	59,192,650	2,859,691	108,406	19,234,327	81,395,074
Financial liabilities					
Customer deposits	-	-	-	63,447,070	63,447,070
Due to banks and other financial institutions	-	-	-	4,409,427	4,409,427
Sukuk financing instruments	-	-	-	4,176,015	4,176,015
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	-	3,679,923	3,679,923
	-	-	-	79,464,978	79,464,978

58 Financial assets and liabilities (continued)

At 31 December 2009

	Financings and receivables AED'000	Available for sale AED'000	Fair value through profit and loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial assets					
Balances with central banks	-	-	-	10,120,397	10,120,397
Due from banks and financial institutions	-	-	-	2,557,258	2,557,258
Islamic financing and investing assets	49,924,941	-	-	-	49,924,941
Investment in Islamic sukuk	-	969,683	-	8,321,114	9,290,797
Other investments	-	1,797,389	128,561	-	1,925,950
Receivables and other assets	1,354,661	-	-	-	1,354,661
	51,279,602	2,767,072	128,561	20,998,769	75,174,004
Financial liabilities					
Customer deposits	-	-	-	64,195,503	64,195,503
Due to banks and other financial institutions	-	-	-	1,449,051	1,449,051
Sukuk financing instruments	-	-	-	2,415,034	2,415,034
Medium term wakala finance	-	-	-	3,752,543	3,752,543
Other liabilities	-	-	-	3,370,804	3,370,804
	-	-	-	75,182,935	75,182,935

59 Risk management

59.1 Introduction

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

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

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

59.1.1 Risk management structure

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

Board of Directors

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

59 Risk management (continued)

59.1 Introduction (continued)

Risk Management Committee

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

Risk Management Department

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

Asset and Liability Management Committee

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

Internal Audit

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

59.1.2 Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, liquidity and other risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

59 Risk management (continued)

59.1 Introduction (continued)

59.1.3 Risk mitigation

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

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

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

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

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

59.1.4 Risk concentration

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

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

59.2 Credit risk

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

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

59 Risk management (continued)

59.2 Credit Risk (continued)

Management of credit risk

The Bank's credit risk management framework includes:

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

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

Credit risk measurement

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

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

Collateral

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

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

Islamic derivative financial instruments

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

59 Risk management (continued)

59.2 Credit risk (continued)

Credit-related commitments risks

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

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

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

	Gross maximum exposure 2010 AED'000	Gross maximum exposure 2009 AED'000
Balances with central banks	**9,872,471**	10,120,397
Due from banks and financial institutions	**2,356,531**	2,557,258
Islamic financing and investing assets	**60,128,141**	51,873,243
Investment in Islamic sukuk	**8,200,476**	9,290,797
Other investments	**1,772,946**	1,925,950
Receivables and other assets	**2,076,134**	1,456,394
	84,406,699	77,224,039
Contingent liabilities	**11,309,713**	14,004,529
Commitments	**12,956,471**	11,633,501
Total	**108,672,883**	102,862,069

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.2 Risk concentrations of the maximum exposure to credit risk

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

At 31 December 2010

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

At 31 December 2009

	Retail and business banking AED'000	Wholesale banking AED'000	Total AED'000
U.A.E.	11,244,218	81,756,635	93,000,853
GCC	-	5,108,941	5,108,941
South Asia	472,148	1,795,872	2,268,020
Europe	-	1,723,087	1,723,087
Africa	-	314,591	314,591
Others	-	446,577	446,577
Total	11,716,366	91,145,703	102,862,069

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.2 Credit risk (continued)

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

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

	Gross maximum Exposure	
	2010	2009
	AED'000	AED'000
Financial Institutions	**18,517,858**	20,392,723
Government	**11,170,038**	9,585,125
Manufacturing and services	**14,186,895**	16,012,319
Real Estate	**30,515,910**	34,994,946
Home financing	**14,519,700**	3,022,692
Consumer financing	**11,393,439**	8,917,311
Trade	**8,369,043**	9,936,953
Total	**108,672,883**	102,862,069

59.2.3 Collateral and other credit enhancements

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

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

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

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.4 Credit quality per class of financial assets

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

At December 2010

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	9,872,471	-	-	9,872,471
Due from banks and financial institutions	2,356,531	-	-	2,356,531
Islamic financing and investing assets	50,348,908	4,767,011	5,012,222	60,128,141
Investment in Islamic sukuks	8,200,476	-	-	8,200,476
Other investments	1,772,946	-	-	1,772,946
Receivables and other assets	1,970,634	39,817	65,683	2,076,134
	74,521,966	4,806,828	5,077,905	84,406,699
Contingent liabilities	11,309,713	-	-	11,309,713
Commitments	12,956,471	-	-	12,956,471
	24,266,184	-	-	24,266,184
Total	98,788,150	4,806,828	5,077,905	108,672,883

At December 2009

	Non-impaired exposures			
	Low and fair risk AED'000	Past due AED'000	Individually impaired AED'000	Total AED'000
Balances with Central banks	10,120,397	-	-	10,120,397
Due from banks and financial institutions	2,557,258	-	-	2,557,258
Islamic financing and investing assets	45,132,195	3,634,043	3,107,005	51,873,243
Investment in Islamic sukuks	9,290,797	-	-	9,290,797
Other investments	1,925,950	-	-	1,925,950
Receivables and other assets	1,385,180	27,963	43,251	1,456,394
	70,411,777	3,662,006	3,150,256	77,224,039
Contingent liabilities	14,004,529	-	-	14,004,529
Commitments	11,633,501	-	-	11,633,501
	25,638,030	-	-	25,638,030
Total	96,049,807	3,662,006	3,150,256	102,862,069

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.4 Credit quality per class of financial assets (continued)

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

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

	Moody's equivalent grades	**Total 2010 AED'000**	Total 2009 AED'000
Low risk			
Risk rating class 1	Aaa	**12,249,828**	13,812,166
Risk rating classes 2 and 3	Aa1-A3	**12,640,826**	29,601,113
Fair risk			
Risk rating class 4	Baa1-Baa3	**19,237,170**	24,631,065
Risk rating classes 5 and 6	Ba1-B3	**40,972,960**	26,424,077
Risk rating class 7	Caa1-Caa3	**13,688,058**	1,581,386
Watchlist			
Risk rating class 8		**4,806,136**	3,662,006
Impaired			
Risk rating classes 9, 10 and 11		**5,077,905**	3,150,256
		108,672,883	102,862,069

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

59 Risk management (continued)

59.2 Credit risk (continued)

59.2.5 Ageing analysis of past due but not impaired investing and financing assets per class of financial assets

As at December 2010

	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
Islamic financing and investing assets	**1,127,951**	**843,421**	**461,031**	**2,334,608**	**4,767,011**

As at December 2009

	Less than 30 days AED'000	31 to 60 days AED'000	61 to 90 days AED'000	More than 90 days AED'000	Total AED'000
Islamic financing and investing assets	1,350,921	725,390	180,007	1,377,725	3,634,043

See note 48 for more detailed information with respect to the allowance for impairment losses on investing and financing assets.

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

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

	2010 AED'000	2009 AED'000
Islamic financing and investing assets	**6,078,619**	1,034,439

59 Risk management (continued)

59.2.7 Impairment assessment

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

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

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

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

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

59.3 Liquidity risk and funding management

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

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

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

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

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

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

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

59.3.1 Liquidity risk management process

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

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

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

	March	June	September	December
2010	**17%**	**19%**	**16%**	**18%**
2009	24%	19%	12%	18%

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.2 Funding approach

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

59.3.3 Non-derivative cash flows

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

As at 31 December 2010

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

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.3 Non-derivative cash flows (continued)

As at 31 December 2009

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Balances with Central banks	6,376,863	3,743,534	-	-	-	10,120,397
Due from banks and financial institutions	1,875,297	692,838	-	-	-	2,568,135
Islamic financing and investing assets	7,189,650	6,299,255	11,565,259	25,695,570	11,513,388	62,263,122
Investment in Islamic sukuk	-	2,582	1,218,784	6,889,816	3,202,203	11,313,385
Other investments	-	-	864,988	1,060,962	-	1,925,950
Receivables and other assets	-	-	1,464,071	-	-	1,464,071
Total assets	15,441,810	10,738,209	15,113,102	33,646,348	14,715,591	89,655,060
Customers' deposits	24,590,701	21,606,229	7,894,737	11,553,315	142,442	65,787,424
Due to banks and other financial institutions	53,890	147,957	1,286,129	-	-	1,487,976
Sukuk financing instruments	-	30,188	90,564	2,777,289	-	2,898,041
Medium term wakala finance	-	-	-	-	4,803,255	4,803,255
Other liabilities	843,424	177,180	1,924,237	422,103	-	3,366,944
Accrued zakat	-	142,807	-	-	-	142,807
Total liabilities	25,488,015	22,104,361	11,195,667	14,752,707	4,945,697	78,486,447

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

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

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

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

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.4 Derivative cash flows

As at 31 December 2010

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

As at 31 December 2009

	On demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Unilateral promise to buy/sell currencies	-	3,807,118	1,332,980	3,288,135	-	8,428,233
Islamic profit rate Swaps	-	-	-	12,217,140	392,601	12,609,741
	-	3,807,118	1,332,980	15,505,275	392,601	21,037,974

59 Risk management (continued)

59.3 Liquidity risk and funding management (continued)

59.3.5 Off Balance Sheet items

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

As at 31 December 2010

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

As at 31 December 2009

	On Demand AED'000	Less than 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Commitments on behalf of customers:						
- Letters of guarantee	-	7,157,079	3,120,670	206,837	-	10,484,586
- Letters of credit	-	1,599,509	1,838,109	82,325	-	3,519,943
	-	8,756,588	4,958,779	289,162	-	14,004,529
Capital commitments	-	72,840	123,346	220,071	-	416,257
Total	-	8,829,428	5,082,125	509,233	-	14,420,786

59 Risk management (continued)

59.4 Market risk

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

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

The trading market risk framework comprises the following elements:

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

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

59.4.1 Profit margin risk

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

59 Risk management (continued)

59.4 Market risk

59.4.2 Profit rate risk

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

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

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

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

Currency	**Increase in basis points 2010**	**Sensitivity of profit on financing and investing assets AED'000**	Increase in basis points 2009	Sensitivity of profit on financing and investing assets AED'000
AED	**50**	**51,252**	50	53,917
USD	**50**	**8,651**	50	9,564

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.4 Market risk (continued)

59.4.3 Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.
The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

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

At 31 December 2010

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

Notes to the consolidated financial statements for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.4 Market risk (continued)

59.4.3 Foreign exchange risk (continued)

At 31 December 2009

	AED AED'000	USD AED'000	Other G.C.C. AED'000	GBP AED'000	Euro AED'000	Others AED'000	Total AED'000
Financial Assets:							
Cash and balances with Central banks	6,237,105	5,249,090	-	-	-	125,375	11,611,570
Due from banks and financial institutions	697,169	1,466,593	200,800	15,193	84,656	92,847	2,557,258
Islamic financing and investing assets, net	44,034,275	4,772,403	89,846	-	21,760	1,006,657	49,924,941
Investment in Islamic sukuk	6,458,243	2,678,176	-	-	-	154,378	9,290,797
Other investments	528,751	963,226	185,864	8,594	180,101	59,414	1,925,950
Receivables and other assets	1,225,295	100,880	42	-	13,904	123,950	1,464,071
Total	59,180,838	15,230,368	476,552	23,787	300,421	1,562,621	76,774,587
Financial Liabilities:							
Customers' deposits	56,961,904	5,438,182	516,967	52,369	348,957	877,124	64,195,503
Due to banks and other financial institutions	651,408	790,844	22	383	943	5,451	1,449,051
Sukuk financing instruments	-	2,415,034	-	-	-	-	2,415,034
Medium term wakala finance	3,752,543	-	-	-	-	-	3,752,543
Other liabilities	2,308,613	807,141	184,335	282	1,886	68,547	3,370,804
Total	63,674,468	9,451,201	701,324	53,034	351,786	951,122	75,182,935
Net on balance sheet financial position	(4,493,630)	5,779,167	(224,772)	(29,247)	(51,365)	611,499	1,591,652
Unilateral promise to buy/sell currencies	7,272,555	(7,293,647)	(3,757)	29,303	510	(4,964)	-
Cumulative currency position – long/(short)	2,778,925	(1,514,480)	(228,529)	56	(50,855)	606,535	1,591,652

59 Risk management (continued)

59.4 Market risk (continued)

59.4.3 Foreign exchange risk (continued)

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

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

Currency	Increase in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Increase in currency rate in % 2009	Effect on profit before tax 2009 AED '000
USD	+2	38,686	+2	30,290
GBP	+2	(4)	+2	(1)
EURO	+2	575	+2	1,017

Currency	Decrease in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Decrease in currency rate in % 2009	Effect on profit before tax 2009 AED '000
USD	-2	(38,686)	-2	(30,290)
GBP	-2	4	-2	1
EURO	-2	(575)	-2	(1,017)

59.4.4 Foreign investment

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

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

Currency	Increase in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Effect on equity 2010 AED'000	Increase in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Effect on equity 2009 AED'000
Pak Rupees	+5	-	13,629	+5	615	31,703

59 Risk management (continued)

59.4 Market risk (continued)

59.4.4 Foreign investment (continued)

Currency	Decrease in currency rate in % 2010	Effect on profit before tax 2010 AED'000	Effect on Equity 2010 AED'000	Decrease in currency rate in % 2009	Effect on profit before tax 2009 AED'000	Effect on Equity 2009 AED'000
Pak Rupees	-5	(1)	(12,335)	-5	551	(3,684)

59.4.5 Equity price risk

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

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

Market indices	% Change in Market indices	Effect on consolidated income statement 2010 AED'000	Effect on equity 2010 AED'000	Effect on consolidated income statement 2009 AED'000	Effect on equity 2009 AED'000
NASDAQ Dubai	±5%	-	4,583	-	15,142
Abu Dhabi Stock Market	±5%	-	3,035	-	2,530
Dubai Intl Financial Exchange	±5%	-	9,351	-	8,631
Bahrain Stock Exchange	±5%	894	-	2,642	-
Saudi Stock Exchange	±5%	-	3,192	-	3,321
Doha Stock Exchange	±5%	-	1,293	-	1,230
Others	±5%	1,005	1,530	1,668	1,912

59.5 Operational risk

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

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

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

59 Risk management (continued)

59.5 Operational Risk (continued)

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

59.6 Capital management

59.6.1 Regulatory capital

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

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

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

Capital management

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

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

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

59 Risk management (continued)

59.6 Capital management (continued)

59.6.1 Regulatory capital (continued)

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

	Basel I		Basel II	
	2010 AED'000	2009 AED'000	**2010 AED'000**	2009 AED'000
Tier 1 Capital				
Share capital	**3,797,054**	3,617,505	**3,797,054**	3,617,505
Statutory reserves	**2,731,879**	2,731,879	**2,731,879**	2,731,879
Donated land reserve	**-**	-	**276,139**	276,139
General reserves	**2,350,000**	2,350,000	**2,350,000**	2,350,000
Retained earnings	**368,723**	104,025	**368,723**	104,025
Non-controlling interest	**947,008**	4,910	**942,434**	-
	10,194,664	8,808,319	**10,466,229**	9,079,548
Less:				
Goodwill and intangibles	**(17,258)**	(34,516)	**(17,258)**	(34,516)
Cumulative deferred exchange losses	**-**	-	**(79,279)**	(74,321)
Treasury shares	**-**	(70,901)	**-**	(70,901)
	10,177,406	8,702,902	**10,369,692**	8,899,810
Tier 2 Capital				
Hedging reserves	**4,795**	22,770	**4,795**	22,770
Assets revaluation reserve	**(243,166)**	-	**(243,166)**	-
Collective impairment	**764,689**	352,814	**764,689**	352,814
Medium term wakala finance	**3,752,543**	3,752,543	**3,752,543**	3,752,543
Deductions for associates	**(551,053)**	(525,300)	**(596,950)**	(525,300)
	3,727,808	3,602,827	**3,681,911**	3,602,827
Total capital base	**13,905,214**	12,305,729	**14,051,603**	12,502,637
Risk weighted assets				
On balance sheet	**66,066,432**	61,005,391	**-**	-
Off balance sheet	**6,764,718**	7,772,421	**-**	-
Credit risk	**-**	-	**73,395,388**	64,478,003
Market risk	**-**	-	**1,986,235**	2,026,564
Operational risk	**-**	-	**3,772,256**	5,051,584
Total risk weighted assets	**72,831,150**	68,777,812	**79,153,879**	71,556,151
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk weighted assets	**19.1%**	17.9%	**17.8%**	17.5%
Tier 1 capital to total risk weighted assets after deductions for associates	**13.6%**	12.3%	**12.7%**	12.1%

60 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue 8 March 2011.